BROOKFIELD

PROPERTIES CORPORATION

1996 Annual Report

A diversified real estate company

Corporate Profile

Brookfield Properties Corporation is a diversified North American real estate company active in four sectors of the real estate industry: ☐ the ownership of commercial rental properties; ☐ the provision of real estate management services; ☐ residential land development; and ☐ home building.

Brookfield's operations include: ☐ interests in 40 commercial properties, principally office buildings, containing 25 million square feet of rentable area in which Brookfield has an effective ownership interest in 16 million square feet; ☐ a real estate management services business which manages over 65 million square feet of rentable area; ☐ a land development business with an inventory of approximately 19,000 entitled residential lots and annual sales of over 3,000 lots; and ☐ a home building business which builds and sells over 1,500 homes annually.

Brookfield's objective is to build long-term underlying asset values while increasing annual earnings and operating cash flows.

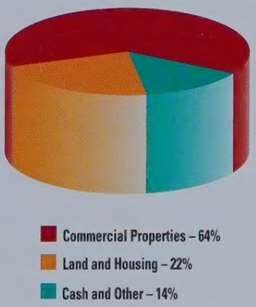
Contents

Financial Highlights

thousands, except per share information	1996	1995	1994
Results of operations			
Revenues	**$950,717**	$826,175	$719,526
Net income	**6,691**	(17,013)	(42,154)
Funds generated from operations	**33,737**	9,783	(18,410)
Financial position			
Total assets	**$6,722,752**	$4,347,349	$4,528,342
Capital base and minority interests	**1,570,549**	954,978	764,852
Fully diluted common share equity	**988,913**	442,523	289,110
Per common share			
Fully diluted book value	**$10.47**	$8.63	$9.22
Closing market price	**$11.75**	$4.60	$5.50

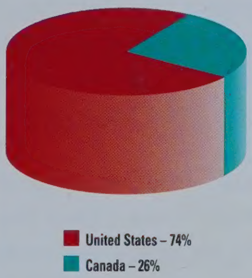
Asset Distribution

(by carrying value)



Geographic Distribution of Assets

(by carrying value)



Shareholders' Report

Overview

1996 was a productive year for your company which resulted in the recent completion of a number of important strategic initiatives. In November, we acquired a 46% interest in World Financial Properties and completed the refinancing of over $3 billion of long-term property debt at lower interest rates. In December 1996 and January 1997, we leased over 700,000 square feet of office space, increasing occupancy levels to 95%. Also in December, we filed a prospectus for an equity unit offering which was completed in January 1997. This resulted in the issue of $600 million of new equity securities, achieving the goal of re-establishing Brookfield's access to the public equity markets.

Having completed these initiatives, 1997 presents a number of new opportunities. With the financial resources now available to us, we will use this capital to increase our sustainable cash flows from the company's current asset portfolio and to pursue new opportunities. With experienced management teams in place and real estate markets continuing to improve, we are well positioned to achieve our goals in 1997.

Market Overview

The commercial real estate markets continue to be fuelled by modest economic growth combined with a lack of new leasable commercial space coming on the market. This is especially evident in the commercial office property sector and has resulted in decreased tenant inducement costs and increased rental rates. In the residential land development and home building businesses, markets continue to improve as pent-up demand absorbs the current oversupply of lots available to builders.

The steady reduction in interest rates during 1996 also improved the outlook for real estate investments. For commercial property owners, this has enabled properties to be re-financed at lower interest rates, thereby increasing operating cash flows. For home owners, interest rate reductions have increased affordability to the most favourable level experienced in decades. Increased home sales volumes also allowed builders to implement modest price increases in select markets.

The changes in the real estate capital markets over the past three years have been equally pronounced. In the United States, the development of a securitization market and the increased demand for real estate investment trusts have provided substantial new capital to the real estate industry. In Canada, traditional real estate lenders have begun to increase their lending to the real estate sector. For the first time in over five years, institutional and retail investors are also increasing their real estate investments through direct ownership of properties and through the acquisition of shares in public real estate companies.

Operating Highlights

Amid increased interest in real estate investments, we continued to execute our business plans in each of our four areas of operation. This included the completion of a number of strategic objectives during 1996, including in particular our expansion into the north-eastern United States. Some of the 1996 operating highlights are as follows:

Commercial Properties

- Acquired a 46% interest in World Financial Properties, an 11 million square foot portfolio of office properties in New York and Boston.
- Since the acquisition of World Financial Properties, more than 420,000 square feet of space has been leased in these properties, increasing occupancies to 98%.
- Acquired partnership interests and management contracts in Fifth Avenue Place in Calgary and Atrium on Bay in Toronto.
- Increased overall portfolio occupancies to 95% and rental revenues by 15% to $342 million.
- Received the national BOMA building of the year award for BCE Place, our land-mark property in Toronto.

Real Estate Management Services

- Expanded our management operations to over 65 million square feet, up from 14 million square feet just two years ago.
- Entered into a new property management joint venture in western Canada.
- Continued to expand the Canadian facilities management business with new public sector contracts.
- Implemented operating efficiencies and focused on client service.

Land Development

- Increased lot sales by 16% to 3,537 residential building lots.
- Launched several land development projects, including McKenzie Towne and Tuscany in Calgary, Northeast Ridge and Rush Creek in the San Francisco Bay area and La Vina and Chase Ranch in the Los Angeles area.
- Recorded a 55% increase in residential lot sales in the Calgary market to 850 lots.

Home Building

- Increased home sales by 10% to 1,628 homes.
- Established two new home building groups, one in the Southland/Los Angeles area and the other in the San Francisco Bay area.

Financial

- Issued $600 million of convertible debentures and common shares to strengthen Brookfield's capital base.

- Increased funds generated from operations to $34 million compared with $10 million in 1995.
- Improved financial performance by $24 million recording net earnings of $7 million compared with a loss of $17 million in 1995.
- Increased total assets by 55% largely as a result of the acquisition of prime office properties.
- Refinanced $3 billion of long-term debt and in the process extended term and fixed interest rates at lower levels.

Strategic Focus

In the commercial property business, our strategy is to own Class A properties in prime downtown locations of major cities in North America. As a result of this strategy, our portfolio is unique in that we own 16 Class A downtown office properties, which on average contain more than 1.3 million square feet, are leased to high quality tenants, and are located in downtown Toronto, New York, Denver, Minneapolis, Boston and Calgary. In 1997, our goal is to add complementary assets to our 25 million square foot portfolio of commercial properties. In particular, we are considering increasing our ownership of office properties in New York and Boston through World Financial Properties and in our other core office property markets.

In the real estate management services business, we plan to expand these operations beyond our present base of 65 million square feet of managed properties. This will be achieved by obtaining new property management contracts, the provision of additional services to existing clients, and through new joint ventures with other property managers in selected markets. With our existing strong presence in the real estate business across North America, we expect this to be an area of growth for Brookfield in the years ahead.

In the residential land development business, our strategy for the past three years has been to move our extensive land holdings through the development phase and into production of residential building lots. This has been accomplished in 16 of our 20 largest projects. The next phase of this plan is to reduce the level of residential building lot inventories in order to recover a substantial portion of the capital currently invested in these properties. This process began during 1996 with total cash generated from operations, including land and housing recoveries, increasing to $86 million. This is expected to entail the sale of over 3,000 lots in each of the next five years.

In the home building business, we are expanding our presence in selected markets through the acquisition of residential building lots which can be built on in the near term. This expansion increased home sales by 10% in 1996 and should lead to Brookfield's home sales more than doubling to over 3,000 units annually within four years.

Outlook

Rental rates for commercial office properties increased in most markets during 1996. This was particularly evident in Minneapolis, Calgary and midtown New York. Most notable has been the decrease in Class A vacancy rates from approximately 17% in Calgary and Minneapolis in 1992 to 7.5% and 4% respectively at the end of 1996. Both Toronto and midtown New York have also decreased their financial core vacancies over the same period of time.

With virtually no new office construction in the downtown central business districts across North America, and the supply/demand curves tightening, the outlook for office rental rates is expected to trend upwards. As real estate investors, tenants and developers focus once again on replacement costs and the extended lead time for construction of quality office properties, this should place upward pressure on rental rates. With current rental rates substantially below those required to justify new buildings, property owners will benefit as leases are renewed at higher rates.

The acquisition of World Financial Properties, combined with our existing portfolio of Class A office properties and the expansion of our residential development business, has positioned Brookfield to participate fully in the growing real estate markets across North America.

On behalf of the board of directors, we would like to express our appreciation to our tenants, customers and business associates for their continued support. We would also like to thank our employees whose hard work has contributed significantly to our improved results.

In closing, we wish to recognize the significant contribution made by Peter F. Bronfman to the development of Brookfield. Peter, as the founder of Brookfield's real estate operations, served as a director and chairman of the company for many years. Peter's unwavering leadership and support will be greatly missed, but his vision and business values will continue to guide us.

On behalf of the board,

Gordon E. Arnell
Chairman and Chief Executive Officer

J. Bruce Flatt
President and Chief Operating Officer

February 18, 1997

Brookfield at a Glance

Location Map

Commercial Properties and Management Operations

Commercial Properties

Management Operations

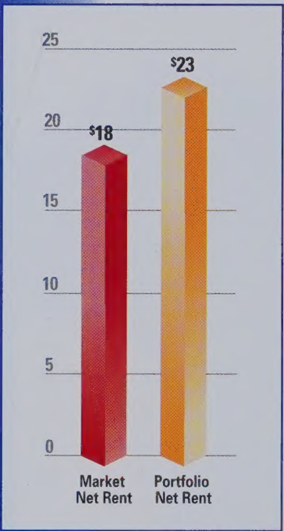
Commercial Properties By Region

(thousands)	Number of Properties	Occupancy	Office	Retail/ Other*	Net Rentable Area	Ownership Interest	Brookfield Interest
		(%)	(000s of sq. ft.)	(000s of sq. ft.)	(000s of sq. ft.)	(%)	(000s of sq. ft.)
Toronto							
BCE Place							
Canada Trust Tower	1	98	1,127	—	1,127	40	451
Bay Wellington Tower	1	97	1,244	—	1,244	100	1,244
Heritage, Retail & Parking	1	98	56	801	857	70	599
320 Bay Street	1	90	290	—	290	100	290
Other	4	90	1,003	274	1,277	34	444
	8	95	3,720	1,075	4,795		3,028
New York							
World Financial Center							
Tower A	1	96	1,461	50	1,511	46	695
Tower B	1	100	2,455	150	2,605	46	1,198
Tower D	1	100	1,711	99	1,810	25	452
One Liberty Plaza	1	96	2,055	68	2,123	46	977
245 Park Avenue	1	96	1,560	58	1,618	46	744
Boston							
Exchange Place	1	99	1,090	30	1,120	25	280
	6	98	10,332	455	10,787		4,346
Minneapolis/Midwest							
Minneapolis City Center	1	99	1,082	695	1,777	100	1,777
Dain Bosworth Plaza	1	94	593	247	840	100	840
Gaviidae Common	1	98	—	392	392	100	392
Chicago Place	1	94	—	313	313	100	313
	4	97	1,675	1,647	3,322		3,322
Denver							
Republic Plaza	1	94	1,233	549	1,782	100	1,782
World Trade Center	2	90	734	43	777	100	777
Other	3	93	638	—	638	69	388
	6	91	2,605	592	3,197		2,947
Calgary/ Western Canada	13	96	2,275	998	3,273	58	1,861
California/Other							
Imperial Promenade	1	99	239	—	239	100	239
Other	2	100	153	8	161	100	161
	3	99	392	8	400		400
Total	40	95	20,999	4,775	25,774		15,904

*Includes parking in mixed-use centres of 1.8 million square feet.

Commercial Properties

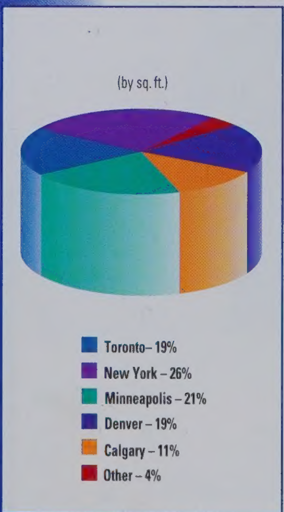
Toronto, Ontario

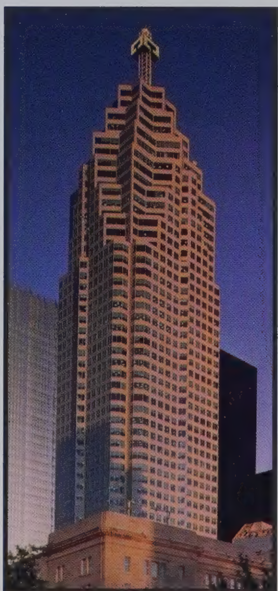


BCE Place, Bay Wellington Tower
Toronto, Ontario

320 Bay Street
Toronto, Ontario

Distribution of Commercial Properties





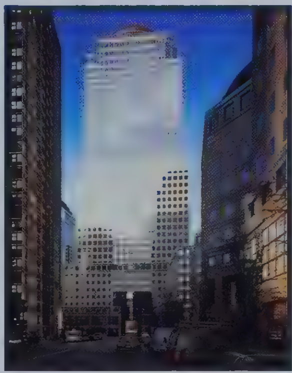
BCE Place, Canada Trust Tower
Toronto, Ontario

Business Operations

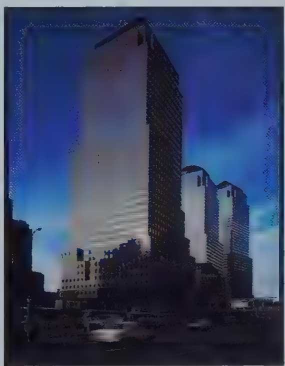
- 40 commercial properties encompassing 25 million square feet.
- 16 major office properties representing 85% of the book value and square footage.
- An average of 1.3 million square feet per property.
- Five major cities, 70% in the United States, 30% in Canada.

Commercial Properties

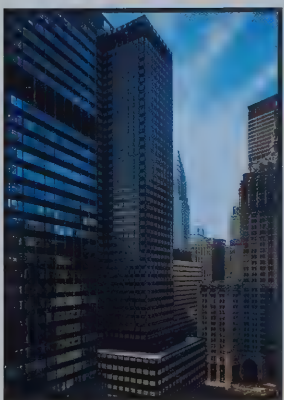
World Financial Center, Tower D
Downtown Manhattan, New York



World Financial Center, Tower B
Downtown Manhattan, New York



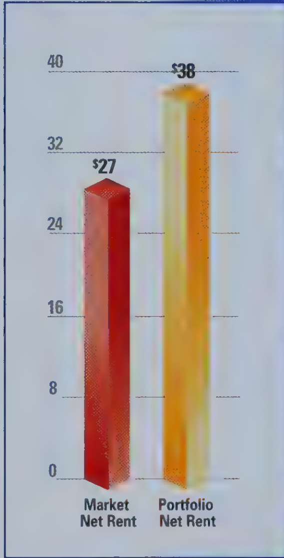
World Financial Center, Tower A
Downtown Manhattan, New York



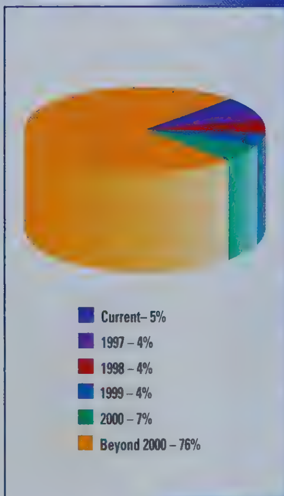
245 Park Avenue
Midtown Manhattan, New York

One Liberty Plaza
Downtown Manhattan, New York

Manhattan, New York

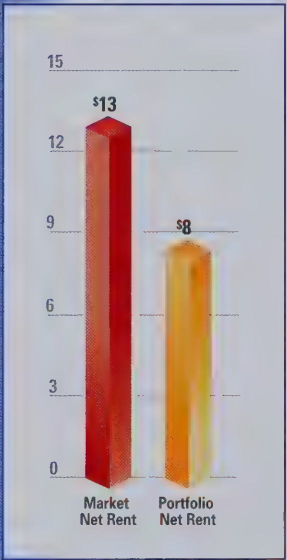


Lease Maturities

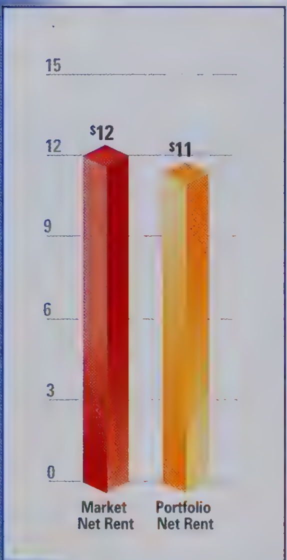


Commercial Properties

Minneapolis, Minnesota



Denver, Colorado



Dain Bosworth Plaza
Minneapolis, Minnesota

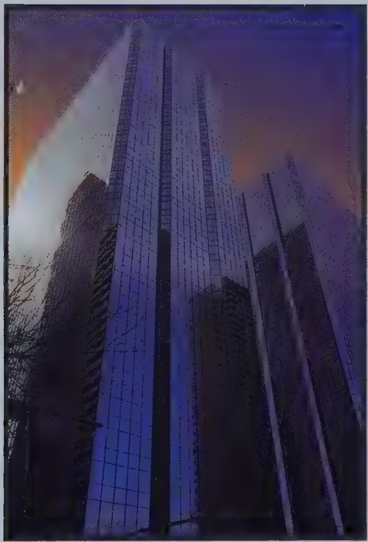
Minneapolis City Center
Minneapolis, Minnesota

Republic Plaza
Denver, Colorado

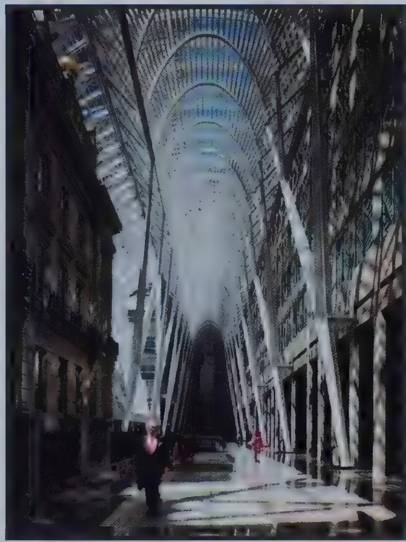
World Trade Center
Denver, Colorado

Exchange Place
Boston, Massachusetts

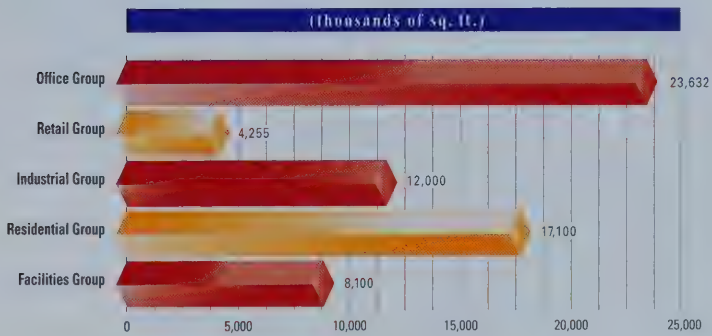
Management Operations



Fifth Avenue Place
Calgary, Alberta



BCE Place, Lambert Galleria
Toronto, Ontario



Vancouver, B.C.

Business Operations

- Property management services.
- Construction and project management services.
- Asset management services.
- Leasing and marketing services.
- Facilities management services for corporate and public sector owners.

Location Map

Land Development and Home Building

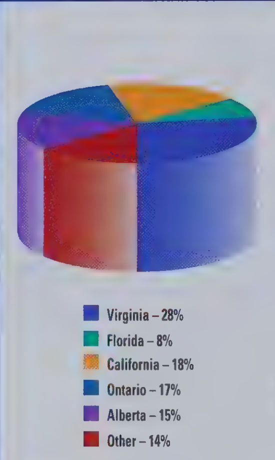
Land Development and
Home Building

Land Development and Home Building By Region

	Ownership Interest	Housing	Land Under Development	Land For Development	Total	Development Land
	(%)	(entitled lots)	(entitled lots)	(entitled lots)	(entitled lots)	(acres)
MARYLAND						
Villages of Marlborough	100	611	—	—	611	—
Willow Creek	100	276	—	—	276	—
Russett Center	50	—	878	—	878	—
Other (7 projects)	100	38	203	361	602	—
VIRGINIA						
Braemar	100	678	2,311	—	2,989	—
Other (5 projects)	100	68	—	—	68	—
		1,671	3,392	361	5,424	—
FLORIDA						
The Point at the Waterways	100	340	624	—	964	—
SAN FRANCISCO						
Northeast Ridge	100	411	168	—	579	—
Rush Creek	100	85	—	—	85	—
Other (2 projects)	100	22	—	—	22	—
		518	168	—	686	—
SOUTHLAND/LOS ANGELES						
La Vina	100	269	—	—	269	—
Signal Hill	100	—	—	392	392	—
Other (2 projects)	100	23	161	—	184	—
		292	161	392	845	—
SAN DIEGO/RIVERSIDE						
Scripps Ranch	75	21	1,657	—	1,678	—
Chase Ranch (Riverside)	100	825	—	—	825	—
Azure Cove	100	72	—	—	72	—
Other (7 projects)	100	291	—	2,564	2,855	—
		1,209	1,657	2,564	5,430	—
ONTARIO						
Port Union Village	100	428	—	—	428	—
Harrowsmith	100	140	721	—	861	—
Tuscany	100	196	—	—	196	—
Fallingbrook	100	230	623	—	853	—
Other (7 projects)	100	94	490	1,266	1,850	—
		1,088	1,834	1,266	4,188	—
CALGARY						
McKenzie West / Towne	100	68	316	—	384	1,578
Tuscany	100	22	146	—	168	864
Hidden Valley	100	—	46	—	46	2
Other	100	—	79	—	79	2,591
EDMONTON						
Whitemud Hills	100	—	50	—	50	—
Twin Brooks	50	—	82	—	82	85
Other	100	—	83	—	83	1,812
		90	802	—	892	6,932
OTHER (10 projects)	80/100	184	302	—	486	1,589
TOTAL		5,392	8,940	4,583	18,915	8,521

Land Development and Home Building

Home Sales



Scripps Ranch Villages
San Diego, California

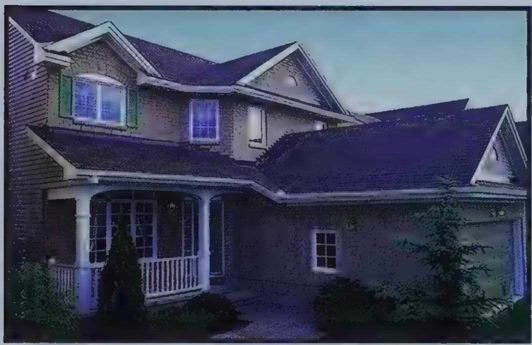
The Point at the Waterways
Aventura, Florida

Port Union Village
Scarborough, Ontario

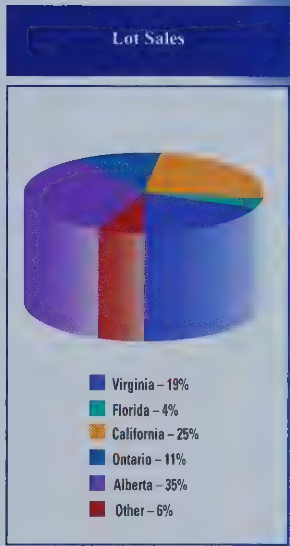
Business Operations

- Operate in 9 major markets across North America.
- Own 19,000 entitled residential lots.
- Own 8,500 acres of land held for future phases of development.
- Over 3,000 lots are sold annually.
- Over 1,500 homes are constructed and sold annually.

Land Development and Home Building



Fallingbrook
Ottawa, Ontario



McKenzie Towne
Calgary, Alberta

Braemar
Prince William County, Virginia

Rush Creek
San Francisco, California

Willow Creek
Clinton, Maryland

Northeast Ridge
San Francisco, California

Financial Review and Analysis

Contents

Overview

Brookfield is a diversified North American real estate company participating in four sectors of the real estate industry. An overview of the businesses and the corporate strategy for each business follows:

Commercial Properties

Brookfield's strategy is to own Class A office properties in prime downtown locations of major cities in North America. Brookfield's portfolio consists of interests in 40 commercial properties, mostly office buildings, containing 25 million square feet of rentable area in which Brookfield has an effective ownership interest in 16 million square feet. Of this portfolio, 16 downtown Class A properties represent 85% of the total square footage and carried value in Brookfield's accounts. Brookfield plans to acquire additional Class A office properties, enhance the properties currently owned, and sell non-core properties which are not in Brookfield's core areas of operation.

As the fundamentals for the office property markets improve and if interest rates remain at current levels for an extended period of time, real estate capitalization rates should continue to decline. As this occurs, property values should increase. Brookfield believes that the movement in property values is likely to occur first, and to the greatest extent, in Class A properties. This should benefit Brookfield given the nature of its principal property holdings.

Real Estate Management Services

Brookfield has expanded its management services base from 14 million square feet in 1994 to 65 million square feet at the end of 1996. Brookfield believes that, as a result of its extensive business relationships in the real estate business across North America, it will be able to expand its real estate management services business further.

Brookfield's real estate management operations consist of a number of different business services which include the management of properties for building owners, the leasing of rentable space, the supervision and construction of premises for tenants and the provision of other real estate services to clients. Brookfield also has a facilities management operation which manages corporate and government properties for single-user tenants. The range of services provided to clients includes virtually all areas of operating the physical facilities of private and public sector work environments.

Land Development

Brookfield owns approximately 19,000 entitled residential building lots on which servicing has commenced. These lots are available for use in Brookfield's own home building operations and for sale to other home builders. Brookfield also owns approximately 8,500 acres of development land which will be developed over the next fifteen years.

Brookfield's strategy is to reduce the level of its residential lot inventory in order to recover a substantial portion of the capital it currently has invested in these operations. This will be accomplished in the normal course of its operations and entails the sale of over 3,000 building lots annually. Capital recovered from Brookfield's land development operations over the next five years will allow Brookfield to reduce indebtedness and expand its other operations. Land will also be acquired from other developers which can be built on in the short-term and advance the expansion of the

company's home building operations in selected markets. The returns from these properties are expected to be superior to those earned on most of Brookfield's existing land holdings.

Home Building

Brookfield's home building operations are conducted as separate self-sustaining profit centres which acquire building lots at prevailing market rates from Brookfield's land development operations and from other land developers. The home building operations currently construct and sell over 1,500 homes annually.

Brookfield plans to expand its home building operations in its core markets and in new markets if Brookfield can establish a strategic presence. Home building is viewed as a business to generate cash flow for investment in long-term commercial properties. These operations are also expected to help balance the more cyclical returns experienced in the land development operations.

Asset Profile

The financial position of the company is presented with the proceeds of the equity unit issue filed for offering in December 1996 and completed in January 1997, reflected in the December 31, 1996 proforma balance sheet. This disclosure provides a more meaningful analysis of the assets and capital structure of the company following the equity issue. On this basis, consolidated assets were $6.7 billion compared with $4.3 billion in 1995. The increase in assets resulted largely from the acquisition of a 46% interest in World Financial Properties L.P.

A segmentation of the assets of the company and details on each of the four areas of operation at December 31, 1996, and the comparative results for the year ended December 31, 1995 (as further described in Note 2 of the consolidated financial statements on page 53 of this annual report) are as follows:

Years ended December 31	1996		1995	
millions	**Book Value**	%	Book Value	%
Assets employed in:				
Commercial rental properties	**$4,301**	**64**	$2,401	55
Land development and housing	**1,499**	**22**	1,526	35
Cash and other assets	**923**	**14**	420	10
Total assets	**$6,723**	**100**	$4,347	100

On a book value basis, the commercial property portfolio represents 64% of the company's consolidated assets. The property portfolio, which is described in more detail on pages 19 through 28 of this report, consists primarily of office buildings in six North American cities. The portfolio is substantially weighted to Class A central business district office properties, which make up 83% of the company's commercial property portfolio.

The company's real estate management services business is represented by a small amount of tangible assets, but employs over 1,500 people. The assets utilized in these operations are included within the commercial rental property category.

The land development and home building businesses represent 22% of the assets of Brookfield. Between the two, the largest capital investment lies in the land development activities. At the present time, the company builds homes on approximately half of the company's development lots, with the balance sold to other home builders.

Other assets represent 14% of the company's assets and consist of cash, receivables, deposits, securities and assets which are non-core and will be sold as opportunities arise.

Commercial Property Investments

The carrying value of Brookfield's commercial properties increased to $4.3 billion compared with $2.4 billion in 1995. The increase resulted principally from the acquisition of World Financial Properties Inc. Over 85% of Brookfield's investment in commercial properties in terms of both carrying value and square feet is represented by 16 Class A office and mixed-use properties located in downtown central business districts in five cities. The average size of these 16 properties is 1.3 million square feet. On an effective square footage ownership basis, Brookfield's commercial properties are located 30% in Canada and 70% in the United States. The following table provides summary information on Brookfield's commercial property portfolio by region. A complete commercial property overview is included on page 7 of this report.

	Number of Properties	Occupancy	Total Net Rentable Area*	Brookfield Interest	Book Value
		(%)	(000s sq. ft.)	(000s sq. ft.)	(millions)
Toronto	8	95	4,795	3,028	$ 976
New York/Boston	6	98	10,787	4,346	1,962
Minneapolis/Midwest	4	97	3,322	3,322	599
Denver	6	91	3,197	2,947	481
Calgary/Western Canada	13	96	3,273	1,861	189
California/Other	3	99	400	400	94
Total	40	95	25,774	15,904	$4,301

* Includes parking in mixed-use centres of 1.8 million square feet.

Brookfield's carrying value for its effective interest in approximately 16 million square feet of rentable area is approximately $269 per square foot. Brookfield's current objective is to increase occupancy levels from 95% to 97% and implement other value enhancement strategies for each property. Brookfield is also well positioned in a number of markets to add properties to its portfolio where it currently has a presence or where it can establish a competitive position. These markets include Toronto and Calgary in Canada and Denver, Minneapolis, New York and Boston in the United States. Smaller properties, and those which do not meet Brookfield's strategic investment criteria, will be sold over time.

The commercial rental portfolio is largely weighted to office properties which encompass 83% of the total portfolio. The balance of the commercial rental portfolio is either stand-alone retail properties or retail and other components of mixed-use centres.

Many of the commercial properties owned by Brookfield were developed over the past fifteen years. The most recently completed property was the Bay Wellington Tower in the BCE Place complex in Toronto. This project, completed in 1992, ended a major development program by Brookfield and shifted Brookfield's operational focus from property development to the maximization of value through leasing, refinancing and implementing operational and other value enhancement strategies. During the past four years, Brookfield leased over 6 million square feet of rentable space, increasing occupancy levels from 65% to 95%. Capital expenditures and tenant inducements have been reduced substantially as the lease-up of the portfolio approaches capacity. Total capital expenditures and tenant inducements decreased to $38 million for the year ended December 31, 1996 compared with $59 million in 1995. On a comparative basis, these will continue to decline as the properties achieve stabilized occupancy and, as a result, require smaller tenant built-out costs. Brookfield expects to achieve its targeted 97% occupancy level within the next 18 months.

The following is a detailed description of each of the major commercial properties owned by Brookfield:

Toronto, Ontario

BCE Place

BCE Place consists of 3,228,000 square feet of rentable commercial space in two high-rise office towers of 51 stories and 47 stories located in Toronto's financial district in the block bounded by Bay, Wellington, Yonge and Front Streets. A 90-foot high glass-enclosed galleria integrates the two office towers, and the related retail space, the Hockey Hall of Fame and 13 other historical buildings. With direct access to Union Station, the Metro Toronto subway system and Commerce Court, BCE Place is a key point of entry to the underground pedestrian walkway system in Toronto. Tenants enjoy easy access to subway and commuter rail services. The project is within walking distance of many of Toronto's finest cultural landmarks, hotels, restaurants, and recreational facilities.

BCE Place – Canada Trust Tower

The Canada Trust Tower is located on the southwest corner of BCE Place and is adjacent to Union Station. This 51-storey office building contains 1,127,000 square feet of rentable office space. Brookfield owns a 40% freehold interest in the Canada Trust Tower. The property is 97% leased and major tenants include Canada Trust, CIBC Wood Gundy and William Mercer.

BCE Place – Bay Wellington Tower

The Bay Wellington Tower is located on the northern portion of BCE Place. This 47-storey office tower contains approximately 1,244,000 square feet of rentable office space. Brookfield owns a 100% leasehold interest with the ground lease expiring in 2085. The property is 97% leased and major tenants include Midland Walwyn, Deloitte & Touche, Newcourt Credit, Noranda and the head office of the company.

BCE Place – Retail, Heritage Buildings and Parking

The retail, heritage, and parking facilities are located between and beneath the Canada Trust and Bay Wellington Towers. This forms the historic and entertainment portion of BCE Place with retail on the concourse and main street levels as well as 1,450 below-grade parking stalls serving the BCE

Place complex and the downtown district. This portion of the BCE Place complex contains 56,000 square feet of office and 801,000 square feet of retail and parking area. This part of the project is 98% leased.

320 Bay Street

The 320 Bay Street office building is located in Toronto's financial district at the corner of Bay and Adelaide Streets. The project consists of an 18-storey historical office building which was extensively renovated in 1990, bringing building systems up to current standards, and expanded with a new 14-storey adjacent addition. The building contains 290,000 square feet of rentable space which is integrated with the Toronto financial core and the underground pedestrian network. Brookfield holds a 100% freehold interest in the property. The project is 90% leased and Canada Trust is the major tenant.

Manhattan, New York

The World Financial Center

The World Financial Center is a 7.5 million square foot complex located in the financial district of Manhattan in Battery Park City. The four office towers and 306,000 square feet of retail space are connected by a winter garden, retail concourse and glass-enclosed atrium. World Financial Properties has ownership interests in three of the four office towers and the retail space, as follows:

Tower A – World Financial Center

Tower A of the World Financial Center is a 40-storey tower which was completed in 1985 and has a net rentable area of 1,510,987 square feet. The building is connected to the World Financial Center complex through an enclosed passageway. World Financial Properties owns a 100% leasehold interest on a ground lease with the Battery Park City Authority until June 17, 2069. The property is 96% leased and is the world headquarters of Oppenheimer & Co. Inc. and Dow Jones & Company Inc.

Tower B – World Financial Center

Tower B of the World Financial Center is a 45-storey tower completed in 1987 which has over 2,605,000 square feet of rentable area including 126,000 square feet of retail space. Tower B is one of the two World Financial Center buildings which house the world headquarters of Merrill Lynch. Tower B also includes the retail area of World Financial Center and the galleria podium of the complex. World Financial Properties owns a 100% leasehold interest on a ground lease with the Battery Park City Authority until June 17, 2069. This property is almost entirely leased to Merrill Lynch until September 2013.

Tower D – World Financial Center

Tower D of the World Financial Center is a 34-storey tower completed in 1986 which has a net rentable area of 1,809,678 square feet. Tower D is one of the two World Financial Center buildings which house the headquarters of Merrill Lynch and is 100% leased to and occupied by Merrill Lynch. World Financial Properties owns a 51% leasehold interest on a ground lease with the Battery Park City Authority until June 17, 2069. Merrill Lynch owns a 49% leasehold interest in this property.

One Liberty Plaza

One Liberty Plaza is a 53-storey, 2,123,000 square foot office building located in downtown Manhattan adjacent to the World Trade Center in the financial district of lower Manhattan. The building was completed in 1971 as U.S. Steel's world headquarters and was occupied by Merrill Lynch as its world headquarters until its move to the World Financial Center. Since 1987, the building has undergone substantial renovation including complete reconstruction of the lobby and plaza areas. World Financial Properties owns a 100% freehold interest in this property which is 96% leased to tenants such as the Bank of Nova Scotia, Royal Bank of Canada, Long Term Credit Bank of Japan and the legal firm of Cleary, Gottlieb, Steen & Hamilton.

245 Park Avenue

245 Park Avenue is a 44-storey office tower located in midtown Manhattan on Park Avenue at 46th Street immediately adjacent to Grand Central Station. The building was completed in 1970 and contains 1,617,789 rentable square feet. World Financial Properties owns a 100% freehold interest in this property which is 96% leased to tenants including Bear Stearns and Industrial Bank of Japan.

Minneapolis, Minnesota

Minneapolis City Center

Minneapolis City Center is located in Minneapolis on the Nicollet Mall between 6th and 7th Streets in the downtown core. The project consists of a 52-storey office tower containing 1,082,000 square feet of rentable office space, a 215,000 square foot, three-level retail centre containing 90 stores, a three-level 105,000 square foot Montgomery Ward department store, a 50,000 square foot Marshalls department store and a six-level parking facility for 687 vehicles consisting of 325,000 square feet. The project was completed in 1983 and the retail component was extensively renovated in 1993. The property is integrated with the company's Gaviidae Common retail property and is also adjacent to Dayton's flagship department store. Minneapolis City Center includes the 602-room Marriott Hotel that is constructed on lands leased from the company until 2036 at a fixed minimum rental plus a percentage of gross revenue from the hotel over a base amount. Brookfield owns a 100% freehold interest in the total property. The project is 99% leased with Target Department Stores, a division of Dayton Hudson Corporation, being the largest tenant.

Dain Bosworth Plaza

The Dain Bosworth Plaza is a mixed-use office and retail development consisting of 840,000 rentable square feet in the Minneapolis financial district at 6th street on the Nicollet Mall. The retail component consists of a 119,000 square foot Neiman Marcus department store and 70,000 square feet of other retail stores on four levels which comprise the second phase of Gaviidae Common. The 40-storey office tower, completed in 1992, consists of 593,000 square feet. The property also has 220 underground parking stalls consisting of 58,000 square feet. Brookfield owns a 100% leasehold interest and has a fixed-price option to acquire the ground lease at any time. The property is 94% leased, with the largest tenant being Inter-Regional Financial Group which owns Dain Bosworth, a major stock brokerage firm.

Gaviidae Common

Gaviidae Common is a 392,000 square foot, five-level retail centre in downtown Minneapolis. The property is located immediately west of the Minneapolis City Center building, and diagonally

across from Dayton's department store. The project is anchored by Saks Fifth Avenue and features waterfalls and extensive natural light. Gaviidae Common is connected to the retail component of the Dain Bosworth Plaza by skyways at the 2nd and 4th levels. The first phase contains parking for 490 vehicles and a 137,000 square foot retail area which is anchored at one end by Saks Fifth Avenue. Phase II, described above as part of the Dain Bosworth Plaza, consists of 70,000 square feet of retail stores and a 119,000 square foot Neiman Marcus store. Brookfield owns a 100% freehold interest in the retail component and a 100% leasehold interest in the Saks Fifth Avenue store. The property is 98% leased.

Denver, Colorado

Republic Plaza

Republic Plaza is located in the financial district of downtown Denver. The property consists of a 56-storey office tower containing 1,232,000 square feet of rentable office space, 45,000 square feet of rentable retail space and an underground parking facility for 200 vehicles consisting of 504,000 square feet. The property also includes an additional 1,250 vehicle parking facility in a nearby free-standing structure. It is the largest office building in Denver and was completed in 1984. Brookfield owns a 100% freehold interest in the property which is 94% leased. Major tenants include Teachers Insurance and Annuity Association and the legal firm of Davis, Graham and Stubbs.

World Trade Center

World Trade Center is comprised of two 29-storey office towers, 1675 Broadway and 1625 Broadway, located in the financial district of downtown Denver across the street from the company's Republic Plaza property. These properties contain 734,000 square feet of rentable office space and 43,000 square feet of parking area. Brookfield owns a 100% freehold interest in the two properties which are currently 90% leased.

Other Major Properties

Chicago Place, Chicago, Illinois

Chicago Place is located at the centre of the Magnificent Mile on North Michigan Avenue, a prime retail district in downtown Chicago. Chicago Place was completed in 1990 and consists of an 8-level speciality retail mall containing 313,000 square feet of rentable space, anchored by Saks Fifth Avenue. An atrium rises the full 8 levels and features glass-enclosed elevators and escalators to all levels. The interior design work incorporates elements from Chicago's early history and includes major works of art. Brookfield owns a 100% freehold interest in this property. The property is 94% leased.

Imperial Promenade, Orange County, California

Imperial Promenade consists of an 11-storey office tower completed in April 1991 containing 239,303 net rentable square feet. The project features a water garden and contains 742 parking stalls. Brookfield owns a 100% freehold interest in this property which is 99% leased to tenants such as NME Hospitals and The Austin Company.

Exchange Place, Boston, Massachusetts

Exchange Place is a 40-storey office tower in the heart of the financial district of downtown Boston. The property consists of 1.1 million square feet and was completed in 1982. World Financial

Properties owns a 50% freehold interest in the property which is 99% leased to tenants such as the Fidelity Mutual Fund Group, Smith Barney and the law firms of Goodwin, Proctor & Hoar and Choate, Hall & Stewart.

Lease Maturities and Market Overview

Due to Brookfield's rental portfolio having been largely built in the past fifteen years, as well as having contractual leases in effect, approximately 5% of the total portfolio's leases by square footage mature in each of the next four years. The majority of leases have been structured to mature after the turn of the century in order to benefit from the anticipated movement by that time in rental rates towards levels which justify replacement cost. The lease maturity of Brookfield's portfolio is as follows:

Lease Maturity Schedule

thousands of square feet	Currently Available	1997	1998	1999	2000	2001 & Beyond	Total Leaseable Area
Toronto	359	196	136	181	362	3,561	4,795
New York/Boston	271	450	149	73	216	9,628	10,787
Minneapolis/Midwest	94	64	333	226	69	2,536	3,322
Denver	325	212	216	292	548	1,604	3,197
Calgary/Western Canada	174	163	119	238	602	1,977	3,273
California/Other	5	20	39	12	12	312	400
Total	1,228	1,105	992	1,022	1,809	19,618	25,774
Percentage of total	5%	4%	4%	4%	7%	76%	100%

Rental Rate Renewal Schedule

As a result of the lease profile, maturing leases in Calgary, Minneapolis and Denver should be renewed at higher rental rates than currently in place, as current net market rents are higher than average portfolio rents. In Toronto and New York, the lease maturities are longer term which enables Brookfield to benefit from the expected movement in rental rates towards levels which justify replacement cost by that time. The portfolio has been leased to allow this to occur, with an average lease term in Toronto and New York of over ten years. The only substantial maturities in New York over the next three years are in the 245 Park Avenue property.

Region	Average Lease Term	Est. Average Net Portfolio Rents	Est. Current Net Market Rents*
	(years)	(C$/sq.ft.)	(C$/sq.ft.)
Toronto	8	$23	$18
New York/Boston	12	38	27
Minneapolis	8	8	13
Denver	5	11	12
Calgary	5	8	8
Other	6	12	12

* Estimated current net market rent for similar space in the market.

A brief overview of the commercial rental property markets in which Brookfield operates follows:

Toronto, Ontario

Toronto is Canada's largest office market and has shown steady recovery since 1993. Toronto's financial core has a total Class A inventory of over 35 million square feet. Peak vacancy levels were 18.9% in 1993 and have declined steadily to 11.9% at December 31, 1996. The absence of any significant new development, coupled with steady demand, has caused vacancy rates to decline. As a result of occupancies having risen, net effective rents have increased, particularly in Class A buildings. In the large bank-owned towers which compete with Brookfield's properties, vacancy rates have dropped to 8% and net effective rents are in the $12 to $17 per square foot range. Absorption for the last twelve months has been in excess of 500,000 square feet, primarily due to the expansion of the financial services industry. Brookfield's principal Toronto office properties are located in the financial core and are connected to other major downtown office buildings, the metro subway system and other amenities.

Manhattan, New York

The New York market contains the largest area of office space in North America. The greater New York area has approximately 630 million square feet of office space. Manhattan itself contains approximately two-thirds of this space. Manhattan in turn is broken into three submarkets: midtown with 220 million square feet; midtown south with 61 million square feet; and downtown with 112 million square feet. 245 Park Avenue is located in midtown and the balance of Brookfield's New York properties are located downtown.

Midtown's vacancy rate currently stands at approximately 11.9%, down from 13.5% at the end of 1994. The relative absence of larger blocks of contiguous Class A space has enabled some property owners to begin to increase rental rates. The prospects for the next ten years are encouraging based on two primary considerations: growth of employment in the communications, entertainment and technology sectors and a shortage of new office space coming on to the market. Starting with an 11.9% vacancy rate and a modest growth in employment, midtown Manhattan's real estate market should benefit the most in the metropolitan New York area. 245 Park Avenue is among the most desirable addresses in midtown because of its prime location near Grand Central Station, and even a small tightening of supply should improve net effective rents in this property.

The downtown vacancy rate stands at 19%. However, in buildings completed since 1980, the direct vacancy rate is approximately 10%, which is lower than in midtown. More than half of the buildings in downtown were built before World War II. The great disparity in vacancy rates between older and newer properties not only reflects a movement to quality buildings, but also underscores the fact that the financial services sector, which is the main employer in downtown, generally needs to be housed in modern, functional and efficient buildings. This trend has in effect created two downtown markets – the historical but less functional, older buildings and the modern, highly functional, newer buildings which meet the needs of a much broader tenant base. Within the latter group, World Financial Center and One Liberty Plaza rank at the top in terms of desirability due to the quality and location of these properties. Based on the quality of these properties and the outlook for growth of major downtown headquartered institutions, World Financial Properties continues to expect above-market occupancies in its properties. Over the next few years, it is anticipated that net absorption will also result from a continuing trend toward downtown living which is enabling developers to convert older office buildings into co-operative and rental apartment buildings.

Minneapolis, Minnesota

Minneapolis' downtown office market has a total inventory of 21 million square feet and is one of the strongest commercial property markets in the United States. As a result of the improvement in this market, Class A office space vacancies have been reduced to 4%. There are no large, contiguous blocks of office space available in the Minneapolis market, which has severely limited the choices for tenants and has increased rental rates. The absence of new development of office buildings over the next two years will continue to make the availability of office space tight. This should put upward pressure on rental rates, particularly in Class A buildings. As a result, tenants will have limited alternatives to expand or move. Net effective rents in Class A downtown buildings in the Minneapolis office market now range from US$10 to US$15 per square foot. Brookfield's properties are at the centre of the financial and retail district in downtown Minneapolis and are all connected to the city's above-ground, enclosed walkway system and its pedestrian malls.

Denver, Colorado

The downtown office market in Denver has an inventory of approximately 18.5 million square feet. The vacancy rate decreased slightly during 1996 and currently stands at 13%. Class A rental rates in the downtown office market have increased for the sixth consecutive quarter with net effective rents ranging from US$4 to US$8 per square foot. Colorado's population has increased 15% since 1990 with six of the United States' fastest growing communities lying within 75 miles of Denver. The movement into Denver of a number of cable and telecommunication companies has also helped diversify the economy which was, formerly, largely dependent on the energy and mining industries.

Calgary, Alberta

The downtown office market in Calgary has a total inventory of 18 million square feet. The Calgary market has shown a steady improvement with vacancies dropping from a peak of 17.3% in 1992 to 7.4% at December 31, 1996. The demand for office space in downtown Calgary is still substantially driven by the oil and gas industry; however, Calgary now has the second highest number of head offices in Canada, outranked only by Toronto. Class A space availability has become limited especially for larger, contiguous blocks of space. This has favourably affected centrally located Class B office buildings where vacancies have dropped to 12%. The tightening in the rental market has also contributed to an increase in Class A rental rates with net effective rental rates in the range of $9 to $13 per square foot. Brookfield's office properties are all located centrally in downtown Calgary.

World Financial Properties Acquisition

On November 21, 1996, Brookfield acquired an indirect 46% limited partnership interest in World Financial Properties L.P. ("WFPLP") and a controlling interest in the general partner of WFPLP. The business operations of WFPLP are carried out under the name of World Financial Properties.

Brookfield's investment in World Financial Properties is carried in the accounts of Brookfield on December 31, 1996 on an equity basis at $416 million. The acquisition of World Financial Properties resulted from the reorganization by Brookfield of a partial ownership interest it previously held in the World Financial Center and the contribution by Brookfield of cash and

other security interests to World Financial Properties in return for Brookfield's 46% equity interest in World Financial Properties. The results of operations of World Financial Properties from November 21, 1996, and as at December 31, 1996 have been included in Brookfield's accounts on a proportionate basis.

World Financial Properties is one of New York's largest office property landlords and owns approximately 11 million square feet of Class A office space in New York City, including three of the four towers of the World Financial Center, One Liberty Plaza and 245 Park Avenue in Manhattan and Exchange Place in Boston.

Property Portfolio

World Financial Properties property interests are as follows:

thousands, except for percentages	Office	Retail	Total	Ownership
	(sq.ft.)	(sq.ft.)	(sq.ft.)	(%)
New York				
World Financial Center				
Tower A	1,461	50	1,511	100
Tower B	2,455	150	2,605	100
Tower D	1,711	99	1,810	51
One Liberty Plaza	2,055	68	2,123	100
245 Park Avenue	1,560	58	1,618	100
Boston				
Exchange Place	1,090	30	1,120	50
	10,332	455	10,787	

Tenant Structure

The tenants which occupy the buildings owned by World Financial Properties provide a stable source of cash flow through their contractual lease payments. As shown in the table below, tenants leasing over 58% of the World Financial Properties portfolio have a Moody's credit rating of Baa or higher:

Tenant	Credit Rating	Industry	Percentage of World Financial Properties Portfolio
Credit-rated tenants	(Moody's)		
Merrill Lynch	Aa3	Financial	39.3
Bear Stearns	A	Financial	6.1
Bank of Nova Scotia	A	Financial	2.3
NYLCARE Health Plans	Aaa	Insurance	1.9
Long Term Credit Bank of Japan	Baa	Financial	1.5
Other	Aa/Baa	Insurance/Financial	7.4
			58.5
Non-rated tenants			
Oppenheimer Management Corp.		Financial	4.7
Dow Jones & Company, Inc.		Publishing	3.5
Cleary, Gottlieb, Steen & Hamilton		Law	2.8
Goodwin, Proctor & Hoar		Law	2.6
Fidelity		Financial	3.3
Other		Various	24.6
			100.0

Lease Structure

The World Financial Properties portfolio is 98% leased. 77% of the leases currently in place extend beyond 2004.

thousands of sq.ft.	Currently Leased	1997	1998	1999	2000	2001	2002	2003	2004
Expiries	271	450	149	73	216	45	780	19	440
Cumulative expiries	—	721	870	943	1,159	1,204	1,984	2,003	2,443
Contractual occupancy	98%	93%	92%	91%	89%	89%	82%	81%	77%

Financing Profile

Consistent with the structure of the leases in place, World Financial Properties has been financed with long-term project related debt. This includes US$1.2 billion of conventional mortgage debt and US$1.3 billion of self-liquidating mortgage debt with an average interest rate of 7.8%. Details of the debt on each of the properties are as follows:

	Rentable Sq.Ft.	Total Debt	Ownership	Average Lease Life	Average Term of Debt	Debt per Sq.Ft.	Debt per Sq.Ft. at Maturity
	(thousands)	(US millions)	(%)	(years)	(years)	(US$/sq.ft.)	(US$/sq.ft.)
New York							
World Financial Center							
Tower A	1,511	$ 458	100	9.5	6.7	$302	$262
Tower B	2,605	873	100	16.9	10.9	335	—
Tower D	1,810	434	51	16.9	12.1	240	—
One Liberty Plaza	2,123	289	100	8.7	6.6	136	105
245 Park Avenue	1,618	292	100	6.7	8.6	180	147
Boston							
Exchange Place	1,120	145	50	6.8	1.7	130	129
Total	10,787	$2,491		11.7	9.0	$231	$ 93

1996 Proforma Property Revenues, Expenses and Net Operating Income

A historical summary of the regularized net operating income of the World Financial Properties portfolio if Brookfield had owned it during 1996 is as follows:

US millions	Property Revenue	Property Expenses	Net Operating Income
New York			
World Financial Center			
Tower A	$ 88	$ 37	$ 51
Tower B	120	32	88
Tower D	81	28	53
One Liberty Plaza	73	32	41
245 Park Avenue	98	34	64
Boston			
Exchange Place	21	9	12
Total	$481	$172	$309
Brookfield 46% interest – Cdn.			$193

Real Estate Management Services

Brookfield manages over 65 million square feet of rental space in seven core markets across North America. The distribution of this portfolio by type of property is as follows:

thousands of square feet	Office Group	Retail Group	Commercial & Industrial Properties	Residential Properties	Facilities Management	Total
Brookfield Management						
Montreal	—	200	1,700	—	—	1,900
Toronto	5,400	500	4,500	15,700	3,700	29,800
Alberta/Sask/Manitoba	3,200	—	3,400	600	2,300	9,500
Vancouver	—	1,900	2,400	800	2,100	7,200
Minneapolis/Chicago	1,700	1,100	—	—	—	2,800
Denver	3,000	100	—	—	—	3,100
World Financial Properties						
New York/Boston	10,332	455	—	—	—	10,787
Total	23,632	4,255	12,000	17,100	8,100	65,087

Brookfield's real estate management services operations have the potential to grow from the expansion of Brookfield's facilities management business, the acquisition of additional property management contracts and the expansion of services provided to existing customers.

Brookfield's real estate management services group is committed to providing a high level of client service. This is achieved by managing physical facilities and operating costs to standards which permit owners to maximize asset value. The objective is to provide a superior working environment in order to retain and attract new tenants to properties managed by Brookfield.

Additional property management contracts and partnership arrangements will be considered in selected markets in order to capitalize on the benefits that a larger and broader real estate management services operation brings to tenants, property owners and investment partners. In the past year, Brookfield entered into numerous new contracts including the management of Fifth Avenue Place in Calgary and the Atrium on Bay and Exchange Tower in Toronto.

The trend towards outsourcing of corporate facilities management, including property, technical and infrastructure management, by large private and public sector organizations represents a potential market that is now growing rapidly in Canada. Brookfield's facilities management group is structured as a 50:50 joint venture with Johnson Controls, the world's largest facility manager. This operation currently has a five-year contract for the management of 460 Canada Post facilities containing seven million square feet of space as well as a number of other government and private properties. This business is being actively pursued for growth by Brookfield.

Brookfield believes that the growth of the property management business will continue, particularly if the ownership of major retail and office properties shifts to institutional investors, many of whom prefer to contract out real estate management services. Brookfield should benefit from this shift in the ownership of properties.

Land Development Operations

Brookfield's land development operations are located in nine major markets across North America. The Canadian land development business owns property in Toronto, Ottawa, Calgary and Edmonton. In the United States, Brookfield owns property in Virginia and Maryland, Florida, San Francisco, Southland/Los Angeles and San Diego. The aggregate book value of Brookfield's land and housing assets is $1.5 billion as detailed below. A more detailed description of projects currently being developed by Brookfield is included on page 13.

	Housing Units	Development Land	Housing	Land Under Development	Land for Development	Total
	(entitled lots)	(acres)	(millions)	(millions)	(millions)	(millions)
Virginia / Maryland	5,424	—	$ 95	$ 91	$ 8	$ 194
Florida	964	—	103	134	—	237
California						
San Francisco	686	—	132	23	2	157
Southland/Los Angeles	845	—	57	39	86	182
San Diego/Riverside	5,430	—	31	165	129	325
Ontario	4,188	—	66	56	39	161
Alberta	892	6,932	6	53	136	195
Other	486	1,589	18	12	18	48
Total	18,915	8,521	$508	$573	$418	$1,499

Brookfield's land development operations are concentrated in 20 major projects which are currently under development. While ongoing land development operations will continue to be carried out in each of Brookfield's areas of operation, the capital investment in a number of the regions will be reduced through the sale of serviced lots to other builders and Brookfield's own home building operations over the next five years. At the same time, shorter-term land will be acquired in Brookfield's core regions to accommodate Brookfield's own home building requirements.

Lot sales for the year ended December 31, 1996 increased 16% to 3,537 lots compared with 3,056 lots in 1995. The breakdown of the lot sales is as follows:

	1996	1995
Virginia/Maryland	**680**	678
Florida	**137**	34
California	**863**	897
Ontario	**402**	294
Alberta	**1,234**	1,008
Other	**221**	145
	3,537	3,056

Specific information about the major projects from which Brookfield derives lot sales is set out below:

Villages of Marlborough, Prince George's County, Maryland

The Villages of Marlborough is part of a master-planned community that includes a golf course and other recreational amenities. Located in Prince George's County, Maryland, it is approximately 7 miles east of the Washington Beltway and 17 miles from downtown Washington. The project

includes Kingsley Hall and Saxony Square townhouses, Winterset single-family program, and Normandy Place condominiums. The remaining land is likely to yield 503 condominium and townhouse units and 108 single-family lots. Brookfield has sold 1,189 lots to date in this project.

Willow Creek, Clinton, Maryland

Willow Creek is located in the town of Clinton, Maryland, 18 miles southeast of Washington National Airport. This project's land-use plan was modified in 1995 to broaden its marketability and to accelerate lot absorptions. The current project configuration includes 276 single-family lots with lot widths varying from 45 feet to 75 feet.

Russett Center, Anne Arundel County, Maryland

The Russett project is a master-planned residential community of 613 acres planned for 3,520 housing units, located in Anne Arundel County, midway between the cities of Baltimore and Washington, D.C. The community currently features a variety of recreational facilities, a major shopping centre and other amenities such as a family complex, library and day-care centre. The housing mix includes single-family homes, townhouses, condominiums, rental apartments and a senior citizens project. The project is fully entitled and has three phases. Phase 1 comprises 1,541 units and is fully built out. Phase II is being built out by 9 builders who have purchased or optioned 707 lots. This phase is predominantly single-family homes and fee-simple townhouses. Development in the third and final phase has recently commenced and lot sales to builders will begin in January 1997.

Braemar, Prince William County, Virginia

Braemar is a residential-planned community in Prince William County, Virginia, approximately 22 miles west of the Washington Beltway, that currently features large areas of open space, spectacular vistas, extensive recreational facilities, schools and shopping. The land-use plan includes single-family units, townhouses, condominium and higher density multi-family type units in a zoned residential area with 2,989 lots remaining and 181,000 square feet of commercial space. Development work is ongoing on the initial 700 unit phase. During 1996, development work was completed on the first of two community centres, entry monumentation and a community swimming pool.

The Point at the Waterways, Aventura, Florida

The Point at the Waterways consists of five condominium towers: Atlantic I, II and III fall into the luxury category. The typical unit square footage within these buildings ranges from 2,300 square feet to almost 3,000 square feet with the ability to combine units. The prices within these buildings run from the low US$400,000s to the high US$800,000s with combination units running as high as US$1.5 million. Each building's most attractive feature is the magnificent unobstructed view of the Atlantic Ocean from virtually every unit. In addition to the views, the units offer marble bathrooms, European kitchens, expansive balconies, two-storey lobbies and a number of in-building activity centres. The first of the Atlantic series, Atlantic II, is now built and occupied.

The high-rise residential buildings at The Point also include the North Tower and the South Tower. These residences range in square footage from 1,500 square feet to just over 2,000 square feet with prices ranging from approximately US$200,000 to over US$400,000. Although the North Tower and the South Tower also offer views of the Atlantic Ocean, their primary views are oriented toward

a marina. These buildings offer features such as raised panel kitchens, marble master baths, tiled secondary baths, glass railing balconies to enhance the views, two-storey lobbies and additional card rooms and function rooms. The North Tower and the South Tower are each 288-unit towers and offer a spectacular arrival area directly on the marina.

Northeast Ridge, San Francisco, California

Northeast Ridge is a 228-acre master-planned residential community with views of San Francisco and includes a 6.5-acre park and 579 units in three separate neighbourhoods connected by roads, bike lanes and hiking trails. The project is located halfway between downtown San Francisco and the San Francisco airport. It is on San Bruno Mountain and borders San Bruno State Park. Phase I infrastructure is complete and models of the condominium units were opened in October 1996. Townhouse models will open in the spring of 1997.

Rush Creek, San Francisco, California

Rush Creek consists of 85 remaining estate homes in a wooded setting abutting a major protected wetlands area in North Marin County. Of the total 390 acres, only 90 acres will be developed with the rest remaining open space. Model homes were opened in mid-1996.

La Vina, Pasadena, California

La Vina is a 220-acre gate-guarded residential community near Los Angeles with outstanding views. Model home construction has commenced in this 269-unit community. Two product types are being constructed and a grand opening is planned for the spring of 1997. The project borders San Gabriel Mountain and is 11 miles from downtown Los Angeles and three miles from Pasadena. Approximately one-half of the property will remain as parkland.

Signal Hill, Long Beach, California

The Signal Hill project is within a 101-acre planned residential community in the 2.3 square mile City of Signal Hill, located on a hillside with views of the Pacific Ocean and the Ports of Los Angeles and Long Beach. The project consists of two parcels, a 12-acre Hilltop portion currently planned for 222 units of single-family and multi-family products and the 38-acre Southside portion currently planned for 170 single-family, duplex and multi-family units.

Scripps Ranch Villages, San Diego, California

Scripps Ranch Villages is a 1,200-acre residential master-planned community with 1,678 remaining entitled lots which will be developed and sold over the next five years. Scripps Ranch Villages is located in the foothills of the north-central San Diego metropolitan area and is bounded on the south by Miramar Lake. The property is 16 miles north of downtown San Diego along the Interstate 15 corridor and is the largest fully-entitled land parcel within the city limits of San Diego.

Chase Ranch, Corona, California

Chase Ranch is a 228-acre planned development located in the City of Corona, County of Riverside, approved for 888 units and a 7-acre community park. All required streets and infrastructure to the site are complete and provide freeway access to Interstate 15. There are 825 remaining entitled lots in the project.

Azure Cove, Carlsbad, California

The Azure Cove project is a 41-acre site entitled for 72 single-family units within the Aviara master-planned community in Carlsbad. Construction of model homes has commenced and land development work is close to completion.

Port Union Village, Scarborough, Ontario

The Port Union project consists of a registered plan of subdivision on 75 acres of land totalling 594 units consisting of single-family, semi-detached and townhouse units, as well as a school site, parkland and waterfront trails. The site is situated on Lake Ontario, adjacent to the Centennial Creek Valley parklands, and is a 10-minute walk to the Rouge Hill GO transit station, and easily accessible to Highway 401. There are 428 remaining entitled lots in this project.

Harrowsmith, Oshawa, Ontario

Harrowsmith is situated in the City of Oshawa, east of Toronto. Harrowsmith is an ongoing site started in 1987 which will continue to be developed over the next five years. This award-winning community has developed 45- and 50-foot lots featuring fully detached 2-storey single-family homes. The latest phase offers a wide selection of housing products on 30-, 40- and 50-foot lots. 255 housing lots are fully entitled and servicing is complete.

Tuscany, Maple, Ontario

The Tuscany project includes 162 single-family and 34 townhouse units in Maple, Ontario. Development work has commenced and a sales centre opened in January, 1997 with model construction scheduled to be completed by September 1997.

Fallingbrook, Ottawa, Ontario

The Fallingbrook project consists of housing lots which are located in the Township of Cumberland, approximately seven miles east of downtown Ottawa. Fallingbrook South Community has a full range of residential, industrial and commercial development. There are 853 fully entitled housing lots under development.

McKenzie West/Towne, Calgary, Alberta

McKenzie Towne is located in the McKenzie community of southeast Calgary on the east side of Deerfoot Trail. The project is fully entitled and includes approximately 2,400 acres which will be developed into over 10,000 building lots. The project is a neo-traditional development and has 20 years of lot development capabilities. The project was opened in late 1995 with a town centre, commercial development and town square being officially opened.

Tuscany, Calgary, Alberta

Tuscany is located in northwest Calgary and consists of 852 acres of land which will be developed over the next 15 years. The project is fully entitled for over 1,000 housing lots in a planned community of 3,400 lots, many of which have spectacular city and mountain views.

Home Building Operations

Brookfield's home building activities are operated as a separate profit centre, which complements Brookfield's land development operations. The home building operations currently construct and sell over 1,500 homes annually. Home building is conducted in Toronto, Ottawa, Calgary, and Regina in Canada and Virginia, Maryland, Florida, Arizona, San Francisco, Southland/Los Angeles and San Diego in the United States.

Brookfield's business plan for its home building operations entails expansion in its core markets in order to construct and sell more than 3,000 homes annually by the year 2000. Progress was made in 1996 with increased volumes being achieved in the latter part of the year. Overall sales increased 10% to 1,628 units in 1996 compared with 1,475 units in 1995. The expansion of sales volumes in years ahead will occur largely by building on Brookfield's own long-term land inventory which is currently under development. Additional home sales will result from capital allocated to the purchase of short-term land parcels from other land developers in Brookfield's core markets. Growth will also occur in new markets if strategic acquisitions can be made.

Brookfield is also implementing a program to reduce its operating costs and increase activity levels in order to respond to changes in demographics in its markets and enter new markets where long-term demand is expected to be strong. During 1996, Brookfield decided to withdraw from the Arizona market by mid-1997 and opened new housing groups in the San Francisco Bay area and the Southland/Los Angeles area.

Sales volumes by number of units and total dollar volumes are as follows:

	1996			1995		
thousands, except unit numbers	# of Units	Sales	Average Home Price	# of Units	Sales	Average Home Price
Virginia/Maryland	**465**	**$ 85,000**	**$182**	554	$103,000	$186
Florida	**137**	**92,000**	**676**	34	28,000	810
California	**282**	**114,000**	**403**	398	154,000	388
Ontario	**285**	**51,000**	**179**	200	35,000	173
Alberta	**238**	**32,000**	**133**	106	13,000	126
Other	**221**	**35,000**	**159**	183	29,000	160
Total	**1,628**	**$409,000**	**$251**	1,475	$362,000	$246

Further details of Brookfield's home building operations by region are set out below:

Virginia/Maryland

The Virginia/Maryland home building operations, which serves the greater Washington, D.C. area, are highly competitive and capable of completing the construction and delivery of homes to consumers in less than two months. With the emphasis on the shorter-term projects and land for production building, the Virginia/Maryland operations have consistently sold a high volume of homes in relation to assets employed. During 1996, sales were down as a result of a slowdown in

the Virginia/Maryland market. Despite this short-term decline, this operation will continue to be expanded in the next few years through the build out of existing land holdings and the addition of new projects.

Florida

Brookfield's Waterways project, which is located in the Aventura area of Florida, is the principal housing development Brookfield has underway in Florida. This project consists of five condominium towers which are sold to a mix of United States and international buyers, with the remaining units to be marketed and built over the next five years. Construction of the Atlantic II Tower was completed in 1996 and owners have recently taken possession of their units. Sales increased substantially to 137 units through sales of this tower; increased from 34 in 1995. One new single-family residential acquisition is under contract; a golf course community, called Presidential Estates, near the Waterways project.

California

Brookfield's California home building operations have been repositioned and substantially expanded in order to enable the housing businesses to advance Brookfield's existing land projects and to construct homes on a number of new projects. New home building teams were established in the San Francisco Bay area and Southland/Los Angeles area during 1996. With the acquisition of shorter-term lands, it is expected that the home building operations will substantially increase unit sales over the next three years. As the new home building teams were only established mid-year 1996, the full effect of the increased sales in their operations will not be seen until 1997 and 1998.

Ontario

In Ontario, Brookfield's home sales for the last three years have been below historical levels, largely because Brookfield elected not to bring new land projects to market in Toronto and due to the depressed housing markets. This trend reversed in 1996 as lots were developed and sold in both the Port Union and the Harrowsmith projects in Toronto. Sales increased from 179 homes to 285 homes during the year, largely as a result of the homes sold in these two projects. Two new acquisitions will produce building lots in 1997: Tuscany in Vaughan and the Legacy project in Markham. This should increase annual sales volumes in Brookfield's Toronto home building operations to an expected 500 annual home sales.

Alberta

In Alberta, home building operations are constrained by the size of the market. This results from Brookfield's policy of building on less than 25% of the lots it develops and sells from its Calgary land development operations in order to encourage other builders to buy lots for their own home building businesses. Despite this, sales in 1996 increased by over 100% to 238 compared with 106 in 1995. This was largely as a result of pent-up demand, improving consumer confidence in Calgary and the affordability of housing in the marketplace. Sales also increased as a result of two new developments, McKenzie Towne and Tuscany, coming to market.

Liabilities and Equity

Brookfield's assets of $6.7 billion at December 31, 1996 were financed with external debt of $3.96 billion; accounts payable and bank advances of $311 million; notes and shareholder advances of $880 million; and minority interests, shareholders' equity and convertible debentures of $1.57 billion. The following table summarizes Brookfield's capital structure at December 31, 1996 after giving effect to the $600 million equity unit offering completed in January 1997:

millions	1996	1995
Accounts payable	$ 211	$ 195
Bank advances	100	129
Long-term debt	3,961	2,264
	4,272	2,588
Notes and shareholder advances	880	804
Minority interests	216	147
Shareholders' equity and convertible debentures	1,355	808
Total	$6,723	$4,347

Bank Advances

Brookfield's bank borrowings were $100 million at December 31, 1996 as compared with $129 million in 1995.

Long-Term Debt

Total long-term debt, excluding notes and shareholder advances, was $3.96 billion at December 31, 1996. This increased substantially as a result of the proportionate consolidation of World Financial Properties' long-term property debt. Of the total long-term debt, 79% relates to specific commercial property mortgages and 80% of the dollar amount of the commercial property mortgages are recourse only to specific properties.

Over the course of the past five years, Brookfield has repaid bank debt and extended the term of a substantial amount of its property mortgages. Maturities of the long-term property debt as at December 31, 1996 are as follows:

millions, unaudited	1997	1998	1999	2000	2001 & Beyond	Total
Commercial property mortgages	$ 52	$505	$ 38	$ 3	$2,535	$3,133
Land and housing debt	103	85	116	—	59	363
Debentures and other	35	10	10	112	298	465
	$190	$600	$164	$115	$2,892	$3,961

Commercial property mortgages relate to property specific debt. The maturities of commercial property mortgages in the next four years consist largely of mortgages on four properties which in the current interest rate environment present Brookfield with an opportunity to fix interest rates at lower levels. Other mortgages may also be refinanced and paid down in order to refinance and extend term as well as reduce interest rates from amounts currently outstanding. The largest property mortgages and details on these mortgages are as follows:

millions	Interest Rate (%)	Maturity Date	Total Mortgages Outstanding	Brookfield Proportionate Mortgage Share	Mortgage Details
Canada Trust Tower	8.00	Aug., 1998	$ 99	$ 99	Fixed rate, non-recourse
Bay Wellington Tower	BA+1	Dec., 1998	275	275	Variable rate, recourse
320 Bay Street	8.23	Dec., 2001	35	35	Fixed rate, recourse
World Financial Center					
Tower A	8.89	Nov., 2003	623	286	Fixed rate, non-recourse
Tower B	6.91	Sept., 2013	1,187	665	Fixed rate, non-recourse
Tower D	6.95	Sept., 2013	590	272	Fixed rate, non-recourse
One Liberty Plaza	8.41	Nov., 2003	393	181	Fixed rate, non-recourse
245 Park Avenue	8.50	Nov., 2006	397	183	Fixed rate, non-recourse
Dain Bosworth Plaza	L+1.3	Dec., 1998	82	82	Variable rate, recourse
Minneapolis City Center	8.53	Jan., 2020	218	218	Fixed rate, non-recourse
Republic Plaza	8.00	Jan., 2006	242	242	Fixed rate, non-recourse
World Trade Center	9.30	Sept., 2016	73	73	Fixed rate, non-recourse
Chicago Place	5.00	Dec., 2003	78	78	Fixed rate, non-recourse
Imperial Promenade	9.83	Jul., 1999	23	23	Fixed rate, recourse
Other loans	L+.62	Nov., 2001	102	102	Variable, non-recourse
Other mortgages	9.25	Various	319	319	Various
Total commercial mortgages			$4,736	$3,133	

Land and housing debt relates to construction and development loans which are repaid out of the proceeds from the sale of building lots, single-family and condominium homes. As new homes are constructed, further loan facilities are arranged on a rolling basis. Debentures and other debt finance Brookfield's land and housing and other assets, and are largely due in 2000 and beyond.

Notes and Shareholder Advances

Notes and shareholder advances were $880 million at December 31, 1996, increased from $804 million at December 31, 1995. As a result of the acquisition of World Financial Properties, notes and shareholder advances increased by $341 million, and then were reduced by Edper's $225 million participation in the equity unit offering. $341 million of these loans are due in 2001 and bear interest at 8%. $225 million of loans bear interest at floating rates and are drawn under a five-year termable revolving facility. The balance of $314 million will be repaid largely from the proceeds generated from land and housing developments over the next five years. US$150 million of these loans can be converted at either party's option into a fixed-rate financing at 9.75% repayable in 2015.

Minority Interests

Minority interests provide Brookfield with an additional source of long-term capital because there is no obligation to redeem or otherwise retire any of these obligations. The following table shows the components of Brookfield's minority interests as at December 31, 1996 and 1995:

millions	1996	1995
Brookfield Homes Ltd. common shares	**$ 15**	$ 21
Brookfield Homes Ltd. preferred shares	**55**	55
Carma Corporation common shares	**25**	23
Carma Limited preferred shares	**95**	45
Brookfield Management Services Ltd. common shares	**25**	—
Other	**1**	3
Total	**$216**	$147

Minority interests increased $69 million over 1995 levels as a result of further shares of Carma Limited being issued and due to the consolidation of Brookfield Management Services Ltd. which is 30% owned by Royal LePage and London Life Insurance Company.

Shareholders' Equity and Convertible Debentures

Shareholders' equity and convertible debentures increased to $1.36 billion at December 31, 1996 compared with $808 million at December 31, 1995. This was largely as a result of the $600 million convertible debenture and common share equity issue completed by the company. Retained earnings decreased by $22 million due to preferred share dividends paid being in excess of net income.

Shareholders' investment includes $365 million of perpetual preferred shares carrying varying dividend rates. Of these preferred shares, $225 million held by the company's principal shareholder have exchange features which allow the holders to tender these shares as currency in a common share offering. The balance is represented by $300 million of subordinated convertible debentures and 74.4 million common shares with a fully diluted book value per common share as at December 31, 1996 of $10.47.

Results of Operations

Net income from operations for 1996 improved by $24 million to $7 million compared with a net loss of $17 million for the 12 months ended December 31, 1995. A summary of the principal components of the company's operating results is as follows:

millions	1996	1995	Change
Revenues			
Rental	**$342**	$299	$ 43
Real estate management	**34**	17	17
Land and housing	**544**	470	74
Other	**31**	40	(9)
	951	826	125
Expenses			
Rental	**164**	149	15
Real estate management	**25**	13	12
Land and housing	**513**	474	39
Interest	**175**	148	27
Administrative	**27**	26	1
Minority interest	**12**	5	7
Taxes and other provisions	**1**	1	—
Funds from operations	**34**	10	24
Depreciation	**27**	27	—
Net income (loss)	**$ 7**	$ (17)	$ 24

Revenues and Net Operating Income

Total revenues for the year ended December 31, 1996 increased to $951 million, an increase of 15% over the same period in 1995. This increase is due to higher overall occupancy levels and net effective rents and the inclusion of 40 days of results of World Financial Properties and a full year's results of Brookfield Management. Revenues also increased due to higher land and housing sales as more projects were brought to market.

Rental Operations

The following is an analysis of the net operating income earned from Brookfield's rental properties before unallocated expenses for the twelve months ended December 31, 1996 and 1995.

millions	1996	1995	Change
Revenues	**$342**	$299	$43
Expenses	**164**	149	15
Net commercial property operating income	**$178**	$150	$28

Net operating income from rental operations increased 21% to $178 million for the twelve months ended December 31, 1996, due to higher average occupancy levels, an increase in net effective rental rates on new space leased, contractual step-ups in existing leases and the inclusion of the results of World Financial Properties from November 21 to December 31, 1996. The portfolio of commercial properties was 95% leased at December 31, 1996. This compares with 92% at December 31, 1995. As the balance of the portfolio is leased, free-rent periods expire and contractual increases in rental rates occur, rental contributions will continue to increase.

Brookfield's commercial property portfolio continues to experience increased occupancies and net effective rents as the availability of Class A office space continues to diminish in Brookfield's principal markets. Net property operating income will increase substantially in 1997 as Brookfield benefits from a full year of operations of World Financial Properties. In addition, net operating income should increase by 8% annually for the next few years through increased leasing and higher rental rates. Net commercial property operating income for 1996 would have been $350 million if the results included a full year of operations from World Financial Properties.

Real Estate Management Operations

Revenues from Brookfield's management operations were $34 million compared with revenues of $17 million in 1995. Real estate management revenues consist of property management, leasing, construction services and other fees earned in Brookfield's property management business. The following is a summary of the real estate management business's financial results for 1996 and 1995.

millions	1996	1995	Change
Revenues	**$34**	$17	$17
Expenses	**25**	13	12
Net management services operating income	**$ 9**	$ 4	$ 5

Land and Housing Operations

Land and housing revenues for the twelve months ended December 31, 1996 increased 16% to $544 million compared with $470 million in 1995 as a result of higher lot and home sales. Total lot sales for 1996 were 3,537 compared with 3,056 in 1995. Total home sales were 1,628 for the year

compared with 1,475 in 1995. The increase in sales levels for both lots and homes was the major factor for the increase in the contribution from the land and housing group which reported $31 million of income contribution for the twelve months ended December 31, 1996 compared with a loss of $4 million in 1995.

millions	**1996**	1995	Change
Revenues	**$544**	$470	$74
Expenses, including interest previously capitalized	**513**	474	39
Net land and housing operating income	**$ 31**	$ (4)	$35

Job growth and low interest rates across North America favoured growth in housing sales volumes. Prices increased in a number of markets and are expected to increase in other markets once inventory levels are reduced.

In Calgary, Brookfield registered a 55% increase in lot sales and over a 100% increase in housing sales year-over-year as this market continued to show improved results. The Virginia and Maryland markets were slower with housing sales at 465 units compared with 554 units in 1995. In Florida, 137 condominium units were closed in the first tower of The Point at the Waterways condominium project. A 288-unit second tower was topped off during October with 171 units sold to date and available for occupancy in the fall of 1997. In California, sales decreased due to a number of projects only being completed in the latter part of 1996. In the Greater Toronto and Ottawa markets, affordability is at the highest level experienced since the 1960s. The Port Union project in Scarborough, which opened in February 1996, continues to be one of the higher sales volume projects in the Greater Toronto area. This contributed to increases in home sales from 200 in 1995 to 285 in 1996.

Expenses

Total expenses were $944 million for the twelve months ended December 31, 1996 an increase of 12% from $843 million for the comparable period in 1995. This increase corresponded to the increase in house and lot sales, the increase in rental revenues from the inclusion of World Financial Properties' results, and from the inclusion of real estate management costs related to the increased revenues earned in 1996.

Administrative costs were unchanged from 1995 and depreciation was also consistent with 1995.

No interest was capitalized on rental properties during 1996 and 1995. Net interest capitalized on housing properties and land under development, which because of the shorter-term nature of the land is expensed over the near term as lots are sold, was reduced to $10 million for 1996 compared with $33 million for the comparable period in 1995.

Cash Flow Analysis and Liquidity Resources

For the year ended December 31, 1996, funds generated from operations increased by $24 million to $34 million. Total cash flow after land and housing recoveries was $86 million, increased from $29 million for the comparable period in 1995. Net cash flow generated from the company's existing land and housing business was $53 million in 1996. This compares to a recovery of $17 million

in the year ended December 31, 1995. Over the next five years, it is expected that this amount will continue to increase, leading to a recovery of over $500 million of capital from long-term land development projects.

Brookfield has reduced its general corporate bank debt, invested substantially all of the capital required for tenant inducements and has funded the major infrastructure costs required to start bringing its long-term land projects to market. The World Financial Properties portfolio has been refinanced with debt terms in excess of nine years. Most of Brookfield's mortgages have been reduced to satisfy the conservative loan to value ratios required by the financial markets in recent years.

Brookfield has the opportunity to refinance and reduce interest rates on a number of its commercial properties. If accomplished, this will add to Brookfield's annual operating cash flows. It is also Brookfield's objective to refinance, on a long-term basis, variable rate short-term property mortgages currently outstanding. At the current time, interest on approximately 20% of Brookfield's property mortgages are paid on a floating rate basis, and if fixed, will lead to higher interest costs.

Brookfield has no material commercial property development commitments and no other material cash obligations other than to fund interest and principal repayments on its debt and dividends on its preferred shares. The company does not currently pay a dividend on its common shares. Brookfield will continue to lease-up the balance of its portfolio which will require capital for tenant inducements. This amount has declined due to the low level of vacancies in Brookfield's portfolio. It is expected that on a consolidated basis, the cash requirements in 1997 for tenant inducements will be less than $35 million, which will be funded from property cash flows. Over the next five years, as Brookfield's cash recoveries from its land development operations increase, these funds will be used to reduce bank and shareholder debt and to invest in additional commercial real estate properties should attractive opportunities arise.

Real Estate Industry and Risks

Canadian real estate markets are recovering from the major downturn in business activity and reduction in property values which occurred in the early 1990s as a result of an excess supply of leasable commercial space and the quantity of residential building lots developed in the late 1980s. Furthermore, a contraction in the amount of credit available to the industry created additional difficulties for most real estate companies. The ease with which capital was available to the real estate industry prior to 1990 contributed significantly to the over-supply of commercial real estate buildings and residential building lots.

The current recovery in commercial real estate rental rates is being fuelled by modest economic growth combined with a lack of new supply of leasable commercial space. While national vacancy rates for Class A downtown office space in Canada's major markets remain high at approximately 11%, certain markets have achieved an improved balance of supply and demand. The result has been a decrease in vacancies and an increase in rental rates in the office markets of major centres in Canada. Vancouver, Calgary and Toronto have experienced reductions in vacancies and an improvement in rental rates, particularly for well located Class A office space.

In the United States, the real estate business started to recover nearly three years ago. A number of the cities in which Brookfield owns properties have experienced improved market conditions over this period. Most notable is Minneapolis where vacancy rates in Class A office buildings in the downtown area have been reduced to 4%.

In the land development and home building businesses, markets are recovering as the increased demand absorbs the over-supply of lots available to builders. Interest rate reductions have increased affordability to the highest level in decades, which favours home purchases.

The real estate capital markets have also undergone a transformation over the past five years. In the United States, both the debt securitization market and increased demand for real estate investment trusts have provided additional sources of financing to the real estate industry, replacing capital previously provided by the savings and loan industry prior to its collapse in the late 1980s. While neither of these markets has developed to any major extent in Canada, traditional real estate lenders have begun to increase their lending to the real estate sector. Institutional investors are also acquiring additional real estate investments both through direct ownership of properties and equity investments in real estate companies. Real estate investments currently offer substantially higher after-tax returns compared to many other investments. The real estate sector is also benefitting from the perceived undervaluation of real estate assets relative to investments in other sectors. This has resulted in increased interest by institutional and retail investors in real estate securities.

While the outlook for the real estate industry is positive, there are a number of risks associated with the business.

Interest Rates

Interest rates affect the ownership of commercial properties, land development and home building. Interest paid on mortgages secured by commercial properties represent a significant cost in the ownership of properties, and as a result, the company has fixed a substantial amount of its financing costs. Interest rates also have an important effect on investor attitudes. The level of interest rates influences the capitalization rates paid by investors for commercial properties. Interest rates can also affect the ability of consumers to afford new homes. As a result, an increase in interest rates would negatively impact the company.

Lease Maturities

Brookfield currently has 5% of its space available for leasing and approximately 4% maturing in each of the next three years. While this number is not large in proportion to the portfolio and a substantial amount of leases are due between 2003 and 2013, if rental rates are lower than rates which exist today, rental cash flows would decline.

Consumer Confidence

The North American economy affects all aspects of the real estate business. If a disruption in economic growth occurs, this will affect rental rates achieved in the rental portfolio. In the land and housing business, a faltering of the economy would cause decreased consumer confidence which could affect the improving trends in housing sales that have recently occurred.

The business strategy being followed by Brookfield in each of its four areas of operation include:

Commercial Properties

Brookfield plans to continue to implement value enhancement strategies designed specifically for each of its properties. These include refinancing properties and reducing debt on properties in the current interest rate environment in order to extend the term of mortgage loans and reduce the cost of the company's long-term debt. Operating strategies are also being implemented to improve the attractiveness of the properties for tenants and to reduce operating costs. Centres of excellence are being developed in core cities where Brookfield can benefit from its market expertise and achieve cost efficiencies as a result of the size and scope of its operations. Non-strategic properties will continue to be sold as value enhancement initiatives are successfully implemented.

Brookfield principally owns Class A office properties in downtown markets in Canada and the United States. These properties generally contain more than one million square feet of rentable space. Acquisition of additional office properties will be pursued in Brookfield's core markets or other markets where a core portfolio of complementary assets can be acquired and Brookfield can apply its value enhancement strategies. A small portion of Brookfield's rentable area is retail space, most of which is located in mixed-use centres or in urban shopping malls. Brookfield does not intend to acquire portfolios of retail shopping centres at the current time unless a portfolio with a strategic presence could be acquired.

The specific initiatives which Brookfield plans to implement in order to accomplish its objectives in the commercial property group are as follows:

- increase occupancies from the present 95% level to 97%;
- increase net operating income through higher occupancies and rental rates, as well as operating cost reductions;
- refinance commercial property mortgage loans prior to their maturity in order to benefit from current low long-term interest rates; and
- complete strategic property acquisitions that complement Brookfield's existing portfolio, market knowledge, financial resources and operating expertise.

As vacancy rates decrease and net effective rental rates increase, Brookfield is expected to be a significant beneficiary. A one percent change in the capitalization rates used for the valuation of commercial properties increases or decreases the overall value of Brookfield's portfolio by approximately $500 million.

Real Estate Management

Brookfield plans to build a premier real estate management services company in Canada and the United States by providing a full range of real estate services to both property owners and tenants, including property management, leasing and construction services. In addition, Brookfield intends to expand its management business through the investment of additional capital. Brookfield also plans to expand its facilities management operations.

The specific initiatives which Brookfield plans to implement in order to accomplish its real estate management services objectives are as follows:

- increase the operating earnings generated from Brookfield's real estate management business;
- pursue public and private sector opportunities to expand the facilities management business in Canada;
- retain and motivate highly qualified individuals to ensure superior service is provided to clients; and
- expand the volume of business through new and existing customers, joint ventures, corporate relationships and acquisitions, and by increasing the range of services provided.

Brookfield plans to set measurable operating and performance standards which rank in quality terms above those used by most of its competitors. Through these measures, Brookfield believes it can continue to expand the profitability of its real estate management business.

Land Development

Brookfield intends to reduce the capital it has deployed in the land development business over the course of the next five years. This entails reducing Brookfield's present inventory of 19,000 entitled lots through the sale of over 3,000 lots annually.

The specific initiatives which Brookfield intends to implement in order to accomplish its objectives in its land development operations are as follows:

- complete the infrastructure requirements on existing land developments in order to expedite lot sales;
- increase lot sales to other builders in order to generate cash flow even if they generate minimal overall profits from these sales; and
- minimize risks associated with the acquisition of new projects through local knowledge or joint venture arrangements with other property owners in order to mitigate portions of the development risk.

Lot sales are impacted by the volume of home sales to consumers. If interest rates continue to remain at current levels, this will encourage home and lot sales, as well as higher prices, as present lot supplies are absorbed. The present objective is to maximize the recovery of capital from these operations over the next five years rather than retain the present level of investment in land to achieve higher lot prices in the future.

Home Building

Brookfield plans to expand its home building operations with the objective of selling over 3,000 homes annually by the year 2000. This is being accomplished through the implementation of an operational strategy which entails each business group operating as a stand-alone profit centre. Future home building activities are being refocused on production housing in the move-up market. This recent repositioning of a number of the company's home building groups should lead to enhanced profitability.

The specific initiatives which Brookfield intends to implement in order to accomplish its objectives in its home building operations are as follows:

- expand housing operations in selected markets and improve profit margins by adding value through product and community design;

- procure construction and development financing for housing projects on more favourable terms;
- acquire higher profit margin projects without increasing risk; and
- increase marketing performance in order to provide a competitive advantage over competitors.

As there are smaller amounts of capital invested in the home building business and the investment is shorter term, the risks to Brookfield are lower than in the commercial property and land development businesses. An important objective is to rebuild the productivity of Brookfield's home building business in order to achieve higher profit margins on 3,000 home sales per year by the year 2000.

Outlook

The underlying economics of the real estate sector continue to improve. The United States real estate industry has been able to attract new capital for the past two years with the same beginning to occur in Canada. The liquidity of real estate property investments has also improved. This is being driven by low interest rates and the improved returns now available in the real estate business. The World Financial Properties acquisition, as well as Brookfield's existing portfolio of Class A office properties and our expanding residential development operations enable Brookfield to participate in the recovering real estate markets across North America. This recovery is, however, expected to occur gradually and will be adversely affected if there were a significant rise in interest rates.

Steven J. Douglas
Vice President, Finance

Consolidated Financial Statements

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Management's Responsibility for the Financial Statements

The consolidated financial statements and management's financial analysis and review contained in this annual report are the responsibility of the management of the company. To fulfil this responsibility, the company maintains an appropriate system of internal controls to ensure that its reporting practices and accounting and administrative procedures are appropriate, within reasonable costs, and provide reasonable assurance that relevant and reliable financial information is produced. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles and, where appropriate, reflect estimates based on management's best judgement in the circumstances. The financial information presented throughout this annual report is consistent with the information contained in the consolidated financial statements.

Deloitte & Touche, the independent auditors appointed by the shareholders, have audited the consolidated financial statements in accordance with generally accepted auditing standards to enable them to express to the shareholders their opinion on the consolidated financial statements. Their report as auditors is set out below.

The consolidated financial statements have been further examined by the board of directors and by its audit committee which meets regularly with the auditors and management to review the activities of each. The audit committee reports to the board of directors and is comprised of three directors who are not officers of the company. The role of the audit committee is described in more detail on page 61.

J. Bruce Flatt
President and Chief Operating Officer
February 18, 1997

Steven J. Douglas
Vice President, Finance

Auditors' Report

To the Shareholders,

We have audited the consolidated balance sheets of Brookfield Properties Corporation as at December 31, 1996 and 1995, and the consolidated statements of operations, retained earnings (deficit) and contributed surplus, and statement of cash flow for the years then ended. The consolidated balance sheet for 1996 has been presented in Note 2. We have also audited the proforma consolidated balance sheet as at December 31, 1996. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles. Further, in our opinion, the proforma consolidated balance sheet presents fairly, in all material respects, the financial position of the company as at December 31, 1996 giving effect to the transaction described in Note 2.

Deloitte & Touche
Chartered Accountants

Toronto, Canada
February 18, 1997

Consolidated Balance Sheet

December 31 – thousands	Note	Proforma* 1996	1995
Assets			
Cash and cash equivalents		**$ 478,291**	$ 50,170
Commercial properties	3	**4,301,420**	2,400,851
Land and housing	4	**1,499,104**	1,526,321
Mortgages receivable and other	6	**443,937**	370,007
		$6,722,752	$4,347,349
Liabilities			
Long-term debt	7	**$3,960,909**	$2,263,670
Bank advances		**100,174**	129,115
Accounts payable		**210,868**	195,125
Notes and shareholder advances	8	**880,252**	804,461
Capital base and minority interests			
Minority interests		**215,855**	146,675
Subordinated convertible debentures	9	**300,001**	—
Shareholders' equity	10	**1,054,693**	808,303
		1,570,549	954,978
		$6,722,752	$4,347,349

*The December 31, 1996 Balance Sheet includes the $600 million equity unit offering completed in January 1997 (see Note 2).

On behalf of the board:

Gordon E. Arnell, *Director*

Sam Pollock, O.C., *Director*

Consolidated Statement of Operations

Years ended December 31 – thousands	Note	1996	1995
Revenues			
Rental		**$342,218**	$299,293
Real estate management		**33,321**	16,914
Land and housing		**544,201**	469,595
Interest and other		**30,977**	40,373
		950,717	826,175
Expenses			
Rental		**163,537**	148,595
Real estate management		**25,381**	13,207
Land and housing		**512,734**	474,184
Interest	4	**175,212**	148,587
General and administrative		**26,901**	26,050
Minority interests		**11,899**	4,722
Tax and other provisions	12	**1,316**	1,047
Funds from operations		**33,737**	9,783
Depreciation		**27,046**	26,796
Net income (loss)		**$ 6,691**	$(17,013)
Net loss per fully diluted share		**$(0.43)**	$(1.30)

Consolidated Statement of Retained Earnings (Deficit) and Contributed Surplus

Years ended December 31 – thousands	1996	1995
Beginning of year – retained earnings (deficit) and contributed surplus	**$176,587**	$ 22,950
Contributed surplus	**—**	200,000
Net income (loss)	**6,691**	(17,013)
Dividends paid on preferred shares	**(28,687)**	(29,350)
End of year – retained earnings (deficit) and contributed surplus	**154,591**	176,587
Proforma adjustment		
Share issue costs	**(15,500)**	—
Proforma retained earnings (deficit) and contributed surplus	**$139,091**	$176,587

Consolidated Statement of Cash Flow

Years ended December 31 – thousands	1996	1995
Operations		
Funds from operations	$ 33,737	$ 9,783
Other	(872)	2,243
Cash flow before land and other recoveries	32,865	12,026
Recovery from land and housing sales	548,793	496,220
Investment in land and housing projects infrastructure	(495,994)	(479,551)
Cash flow after land and housing recoveries	85,664	28,695
Financing activities		
Net long-term debt advanced (repaid)	109,717	(82,777)
Shareholder advances (repayments)	300,791	(105,239)
Bank advances repaid	(28,941)	(12,126)
Capital transactions		
Common shares issued	—	200,000
Minority interests, net of repurchases	33,998	29,644
Minority shareholders' participation in cash flow and dividends	(7,854)	(3,740)
Cash flow from financing activities	407,711	25,762
Investment activities		
Acquisition of World Financial Properties	(405,528)	—
Rental properties		
Tenant inducements and capital expenditures	(38,228)	(58,452)
Disposition proceeds	37,087	112,220
Acquisition of new housing operations, net	(44,210)	(6,993)
Other investments and liabilities, net	68,460	(59,756)
Cash flow used in investment activities	(382,419)	(12,981)
Dividends paid on preferred shares	$ (28,687)	$ (29,350)
Total cash and cash equivalents increase	$ 82,269	$ 12,126
Opening cash and cash equivalents	50,170	38,044
Closing cash and cash equivalents	$132,439	$ 50,170
Proforma adjustments		
Shareholder repayments	(225,000)	—
Common shares issued	270,851	—
Subordinated debentures issued	300,001	—
Proforma cash and cash equivalents	$478,291	$ 50,170

Note 1: Significant Accounting Policies

(a) ***General***

The consolidated financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Canadian Institute of Chartered Accountants and the company's accounting policies and its financial disclosure are substantially in accordance with the recommendations of the Canadian Institute of Public Real Estate Companies. The company's shareholders passed a resolution changing the name of the company from Carena Developments Limited to Brookfield Properties Corporation in May 1996.

(b) ***Principles of Consolidation***

The consolidated statement of operations, consolidated statement of retained earnings (deficit) and contributed surplus, consolidated statement of cash flow and the corresponding note disclosure have been presented for the years ending December 31, 1996 and 1995.

The consolidated financial statements include:

(i) the accounts of all subsidiaries of the company including Brookfield Commercial Properties Ltd. ("Brookfield Commercial"), Brookfield Management Services Ltd. ("Brookfield Management"), Brookfield Homes Ltd. ("Brookfield Homes") and Carma Corporation ("Carma"); and

(ii) the accounts of all incorporated and unincorporated joint ventures and partnerships to the extent of the company's proportionate interest in their respective assets, liabilities, revenue and expenses, including the company's investment in World Financial Properties L.P. ("World Financial Properties")

The company's ownership interests in these operating entities are as follows:

(i) *Brookfield Commercial*: The company owns 100% (1995 – 100%) of the common shares of Brookfield Commercial.

(ii) *Brookfield Management*: The company owns a 70% (1995 – 70%) equity interest in Brookfield Management.

(iii) *Brookfield Homes*: The company owns a 96% (1995 – 96%) equity interest in Brookfield Homes.

(iv) *Carma*: The company owns an 80% (1995 – 78%) equity interest in Carma.

(v) *World Financial Properties*: The company owns a 46% (1995 – nil) limited partnership equity interest and general partner interest in World Financial Properties.

(c) ***Properties***

(i) *Rental properties*

Rental properties held for investment are carried at the lower of cost less accumulated depreciation, and net recoverable amount. Depreciation on buildings is provided on the sinking fund basis over the extended useful life of the property. The sinking fund method provides for a depreciation charge of a fixed annual amount increasing at the rate of 5% per annum. Depreciation is determined with reference to the rental properties' carried value, remaining estimated useful life and residual value.

The net recoverable amount represents the undiscounted estimated future net cash flow expected to be received from the ongoing use of the property and its residual value. To arrive at this amount, the company projects the cash flow for each property over a maximum of ten years and includes the proceeds from a residual sale at the end of the period. The projections take into account the specific business plan for each property and management's best estimate of the most probable set of economic conditions anticipated to prevail in the market area.

(ii) *Rental properties under development*

Rental properties under development consist of properties under construction and are recorded at the lower of cost, including pre-development expenditures, and the net recoverable amount.

(iii) *Residential land under and held for development*

Residential land under and held for development is recorded at the lower of cost and estimated net realizable value. Costs relating to land designated for residential uses are allocated to the saleable acreage of each project or subdivision in proportion to the anticipated revenue.

(iv) *Homes and other properties held for sale*

Homes and other properties held for sale, which include properties subject to sales agreements, are recorded at the lower of cost and net realizable value. Cash received related to homes and other properties held for sale is offset against the cost of these properties.

(d) ***Capitalized Costs***

The cost of rental properties under development, land under and held for development, home building properties and properties held for sale include all expenditures incurred in connection with the acquisition, development, construction and initial pre-determined leasing period for these properties.

These expenditures consist of all direct costs, interest on debt that is related to these assets and general and administrative expenses. Revenues relating specifically to such properties, except homes and the sale of building lots, are treated as a reduction of costs.

(e) ***Income Recognition***

Revenue from a rental property is recognized upon the earlier of attaining a break-even point in cash flow after debt servicing or the expiration of a reasonable period of time following substantial completion, subject to the time limitation determined at the time of approval of the project. Prior to this time, the property is categorized as a rental property under development and revenue related to such property is applied to reduce development costs.

The company has retained substantially all of the risks and benefits of ownership of its rental properties and therefore accounts for leases with its tenants as operating leases. Rental revenue includes percentage participating rents and recoveries of operating expenses, and property, capital and large corporation taxes.

Income from the sale of land and other properties is recorded when the collection of the sale proceeds is reasonably assured and all other significant conditions are met. Properties which have been sold, but for which these criteria have not been satisfied, are included in home building properties.

(f) ***Foreign Exchange***

The company's operations in the United States are of a self-sustaining nature. Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. Revenue and expenses are translated at the weighted average rate for the year. Gains or losses arising from the translation of US dollar denominated debt are amortized over the life of the debt and included in other revenues.

(g) ***Per Share Calculations***

Net income per common share has been calculated after providing for preferred share dividends and minority interest, using the weighted average number of common shares outstanding of 51,346,459 (1995 – 35,072,487).

(h) ***Cash and Cash Equivalents***

Cash and cash equivalents includes \$80.6 million of restricted cash held at the property level, which may be utilized for principal and interest repayments on mortgages as well as capital and tenant inducement expenditures. The balance also includes securities of \$23.9 million, which are carried at a value approximating market.

Note 2: Equity Unit Offering

The December 31, 1996 proforma balance sheet includes the proceeds received from the equity unit issue filed with securities commissions on December 10, 1996 and completed in January 1997. Brookfield issued $600 million of equity units for net proceeds of $584.5 million. The equity unit issue comprised $300 million of debentures, convertible at $15 per common share with a stated interest rate of 6% and 23,076,923 common shares issued at $13 per share for total proceeds of $300 million. The offering was completed on an instalment receipt basis whereby 50% of the proceeds were received on closing and the balance is due on February 14, 1998.

The following table shows the application of the proceeds from the equity unit offering on the company's December 31, 1996 balance sheet.

December 31 – thousands	1996	Unit offering	**Proforma 1996**
Assets			
Cash and cash equivalents	$ 132,439	$345,852	**$ 478,291**
Commercial properties	4,301,420	—	**4,301,420**
Land and housing	1,499,104	—	**1,499,104**
Mortgages receivable and other	443,937	—	**443,937**
	$6,376,900		**$6,722,752**
Liabilities			
Long-term debt	$3,960,909	—	**$3,960,909**
Bank advances	100,174	—	**100,174**
Accounts payable	210,868	—	**210,868**
Notes and shareholder advances	1,105,252	(225,000)	**880,252**
Capital base and minority interests			
Minority interests	215,855	—	**215,855**
Subordinated convertible debentures	—	300,001	**300,001**
Shareholders' equity	783,842	270,851	**1,054,693**
	999,697		**1,570,549**
	$6,376,900		**$6,722,752**

Note 3: Commercial Properties

thousands	**1996**	1995
Rental properties	**$4,416,294**	$2,493,848
Less: accumulated depreciation	**114,874**	92,997
Total	**$4,301,420**	$2,400,851

(a) No costs were capitalized to the rental property portfolio in 1996 or 1995.

(b) The decline of the United States dollar in relation to the Canadian dollar during 1996 caused the translated value of United States dollar denominated assets and liabilities to decrease. As a result, from December 31, 1995 to December 31, 1996, the carrying cost of properties decreased by $3.7 million (1995 – decrease of $75.0 million) when translated into Canadian dollars.

(c) Rental properties carried at a net book value of approximately $1,938.9 million (1995 – $1,405.6 million) are situated on land held under leases or other agreements, largely expiring after the year 2070. Minimum rental payments are approximately $15.3 million per year for the next five years and $1,220.2 million in total.

(d) Rental properties are shown net of $77.5 million (1995 – $100 million) of deferred credits which arose on the acquisition of the company's ownership interests in Brookfield Commercial. The deferred credit is being utilized to offset the effect of lease incentives in place at the time of acquisition.

Note 4: Land and Housing Assets

Land and housing assets include homes under construction and residential land under and held for development which will either be sold as lots to home builders or used in the company's home building operations.

thousands	**1996**	1995
Homes under construction	**$ 507,633**	$ 347,841
Residential land under development	**573,663**	732,603
Residential land for development	**417,808**	445,877
Total	**$1,499,104**	$1,526,321

The land development and home building process includes the entitlement and processing of land. The company capitalizes general and administrative expenses and interest which are expensed as these building lots and homes are sold. During 1996, after interest recoveries of $65.6 million (1995 – $76.8 million), the company capitalized a net $10.0 million (1995 – $33.2 million) of interest and $6.9 million (1995 – $2.2 million) of other costs net of recoveries to home building assets and residential lands under and held for development. Costs capitalized to homes and residential properties are recovered through lot and home sale proceeds.

Note 5: Joint Ventures

The following amounts represent the company's proportionate interest in incorporated and unincorporated joint ventures and partnerships.

thousands	**1996**	1995
Assets	**$320,914**	$319,361
Liabilities	**29,602**	64,871
Revenues	**65,703**	57,466
Expenses	**55,281**	46,199

The company, through its subsidiaries and affiliates, is contingently liable for obligations of its associates in its joint venture developments. In each case, all of the assets of the joint venture are available for the purpose of satisfying these obligations.

Note 6: Mortgages Receivable and Other Assets

Mortgages receivable and other assets consist of the following:

thousands	**1996**	1995
Mortgages and loans receivable	**$103,979**	$ 47,272
Non-core real estate assets	**133,555**	166,011
Prepaids and other assets	**206,403**	156,724
Total	**$443,937**	$370,007

Mortgages and loans receivable earned an average rate of approximately 5.98% (1995 – 8.20%) and are due as follows:

thousands	
Year ending December 31, 1997	$ 75,963
1998	13,225
1999	7,412
2000	2,722
Subsequent to 2000	4,657
Total	$103,979

Note 7: Long-Term Debt

The company had long-term debt outstanding at December 31, 1996 as follows:

thousands	**Average weighted interest rates as at Dec. 31, 1996**	**1996**	1995
Debentures	**8.37%**	**$ 464,478**	$ 302,660
Commercial property mortgages	**8.07%**	**3,132,575**	1,569,309
		3,597,053	1,871,969
Housing and development loans	**7.98%**	**363,856**	391,701
Total	**8.09%**	**$3,960,909**	$2,263,670

Principal repayments on the above debt are due as follows:

thousands	Debentures and Other	Commercial Property Mortgages	Land and Housing Loans	Total
Year ending December 31, 1997	$ 34,892	$ 52,423	$102,743	$ 190,058
1998	10,000	504,682	85,442	600,124
1999	10,000	37,897	116,414	164,311
2000	112,000	3,077	—	115,077
Subsequent to 2000	297,586	2,534,496	59,257	2,891,339
Total	$464,478	$3,132,575	$363,856	$3,960,909

Long-term debt includes $3,833.5 million (1995 – $2,263.7 million) of obligations of subsidiaries. Long-term debt includes $3,180.2 million (1995 – $1,182.2 million) repayable in US dollars of $2,338.4 million (1995 – $866.4 million).

Note 8: Notes and Shareholder Advances

Notes and shareholder advances consist of the following balances:

thousands	Note	Proforma 1996	1995
Shareholder advances			
Revolving five-year term facilities		**$225,000**	$151,846
World Financial Properties' notes		**341,227**	—
Other including land and housing projects	2	**179,412**	512,855
Term notes		**134,613**	139,760
Total	2	**$880,252**	$804,461

The revolving term loan facilities bear interest at the prime rate and US$150 million is convertible at either party's option into a fixed rate financing at 9.75% repayable in 2015. The World Financial Properties notes are due in 2001 and bear interest at 8%. Interest expense includes $30.6 million (1995 – $51.7 million) of interest relating to these loans.

Note 9: Convertible Debentures

thousands	Proforma 1996	1995
Interest component of convertible debentures	**$110,592**	—
Option component of convertible debentures	**189,409**	—
Total	**$300,001**	—

The convertible debentures were issued pursuant to an equity unit offering filed on December 10, 1996 and completed in January 1997. The December 31, 1996 proforma balance sheet reflects the completion of the equity unit offering at that date (see Note 2). The convertible debentures mature on February 14, 2007 and bear interest at the rate of 6% per annum payable semi-annually on June 30 and December 31. The company, at its option, has the right to call for a subscription for common shares at market from its majority shareholder to fund these interest payments.

The debentures are not redeemable prior to February 14, 2000. Thereafter and until February 14, 2002, the debentures are redeemable at par plus accrued and unpaid interest but only if the weighted average daily closing price at which the common shares of the company have traded on The Toronto Stock Exchange during 20 consecutive trading days exceeds 125% of the conversion price. After February 14, 2002, the debentures are redeemable at par plus accrued and unpaid interest.

On maturity or redemption, the company has the right to deliver common shares of the company at 95% of the weighted average daily closing price, in return for the amount owing on the debentures.

Each debenture is convertible into common shares at the option of the holder at any time after the payment of the final instalment in respect of the debenture due on February 14, 1998 and prior to the close of business on the earlier of February 13, 2007 and the last business day immediately preceding the date fixed for redemption at a conversion price of $15.00 per share, being a rate of approximately 6.67 common shares per $100 principal amount of debentures.

Note 10: Shareholders' Equity

The authorized share capital consists of:

6,312,000	Class A redeemable voting preferred shares
6,000,000	Class AA redeemable preferred shares
Unlimited	Class AAA redeemable preferred shares
Unlimited	Common voting shares

The issued and outstanding share capital consists of:

thousands		Note	Proforma 1996	1995
Issued:				
6,312,000	Class A preferred shares bearing a cumulative dividend rate of 7¼%		$ 15,780	$ 15,780
2,000,000	Class AA Series E preferred shares bearing a cumulative dividend rate of 70% of bank prime	P/S:	50,000	50,000
3,000,000	Class AAA Series A preferred shares bearing a cumulative dividend rate of 9%	$365,780	75,000	75,000
3,000,000	Class AAA Series B preferred shares bearing a cumulative dividend rate of 9% and exchangeable into common shares of the company		75,000	75,000
6,000,000	Class AAA Series C and D preferred shares bearing a cumulative dividend rate of 8% and exchangeable into common shares of the company		150,000	150,000
74,423,382	Common shares (1995 – 51,346,459)	2	535,450	248,623
			901,230	614,403
Retained earnings (deficit) and contributed surplus		2	139,091	176,587
Cumulative translation adjustment			14,372	17,313
Total			$1,054,693	$808,303

In January 1997, Brookfield issued $600 million of equity units. The equity unit issue comprised $300 million of debentures convertible at $15 per common share with a stated interest rate of 6% and 23,076,923 common shares issued at $13 per share for total proceeds of $300 million (see Note 9). At December 31, 1996, the company had 51,346,459 common shares outstanding with a total paid up capital of $249.1 million and retained earnings (deficit) and contributed surplus of $154.6 million (see Note 2).

In October 1995, the company issued 20 million common shares to The Edper Group Limited for cash proceeds of $200 million.

As at December 31, 1996, 690,000 common shares were reserved for issuance pursuant to share option plans at an average exercise price of $5.05 per common share. The total exercise price of such options is $3.5 million. These options expire prior to February 2002. Loans amounting to $0.5 million (1995 – $3.7 million) to executives of the company relate to employee share purchase plan loans used to purchase fully paid shares of the company. The company's shares are held as security for these loans and shareholders' equity is shown net of these advances.

As at December 31, 1996, retained earnings (deficit) and contributed surplus includes contributed surplus of $445.3 million (1995 – $445.3 million).

Note 11: Acquisition of World Financial Properties L.P.

On November 21, 1996, the company completed the acquisition of a 46% interest in World Financial Properties L.P. ("World Financial Properties"), a newly constituted commercial property company which owns 11 million square feet of Class A office space in New York City and Boston. The results of World Financial Properties are included in the company's consolidated financial statements based upon the company's proportionate share of assets and liabilities of World Financial Properties as at December 31, 1996 and the results of operations of World Financial Properties from November 21, 1996 to December 31, 1996.

For consideration of $50 million in cash and $355 million in loans receivable, the net assets acquired on November 21, 1996, which have been accounted for under the purchase method of accounting, are as follows:

millions	
Assets acquired:	
Commercial properties	$1,952
Cash and restricted cash	63
Other assets	45
	2,060
Liabilities Assumed:	
Mortgage debt	1,605
Accounts and notes payable	50
Net assets acquired	$ 405

Note 12: Tax and Other Provisions

(a) The income tax provisions included in the determination of net income (loss) are computed by applying the expected Canadian federal and provincial statutory rates to the company's proportionate share of pre-tax income (loss). The actual effective tax rate on asset disposition provisions, diminution in asset values, and other items differs from the expected statutory rate due primarily to items taxed at capital rates and items not subject to income tax. The benefit of accounting losses has not been recognized in the current year.

(b) Current tax expense amounted to $1.3 million (1995 – $1.1 million).

(c) The company has $115.4 million of non-capital losses available to reduce taxable income which may arise in the future. These non-capital losses largely expire over the period to 2003. Subsidiaries of the company have $175.8 million of non-capital losses available to reduce taxable income which may arise in the future, which expire over the period to 2011.

Note 13: Segmented Information

The company and its subsidiaries operate in Canada and the United States in four industry segments:

- the ownership of rental properties, including office properties, retail centres, and mixed-use properties;
- the management of commercial, residential, industrial and other facilities for third-party owners;
- the acquisition, development and sale of residential lots to home builders; and
- the building of homes for sale to consumers.

The following summary presents segmented financial information for the company's principal areas of business by industry and geographic location:

	Canada		United States		Total	
millions	**1996**	1995	**1996**	1995	**1996**	1995
Rental operations						
Revenue	**$ 148.3**	$ 139.4	**$ 193.9**	$ 159.9	**$ 342.2**	$ 299.3
Expense	**66.3**	59.8	**97.2**	88.8	**163.5**	148.6
Net operating income	**$ 82.0**	$ 79.6	**$ 96.7**	$ 71.1	**$ 178.7**	$ 150.7
Depreciation	**$ 10.1**	$ 8.0	**$ 16.9**	$ 18.8	**$ 27.0**	$ 26.8
Housing and land sales						
Revenue	**$ 146.8**	$ 102.2	**$ 397.4**	$ 367.4	**$ 544.2**	$ 469.6
Cost of sales	**126.6**	89.1	**386.2**	385.1	**512.8**	474.2
Net operating income	**$ 20.2**	$ 13.1	**$ 11.2**	$ (17.7)	**$ 31.4**	$ (4.6)
Property assets						
Rental properties	**$1,165.9**	$1,159.5	**$3,135.5**	$1,241.4	**$4,301.4**	$2,400.9
Land and housing	**330.9**	361.8	**1,168.2**	1,164.6	**1,499.1**	1,526.4
Total property assets	**$1,496.8**	$1,521.3	**$4,303.7**	$2,406.0	**$5,800.5**	$3,927.3

Note 14: Other Information

The company's operating subsidiaries are contingently liable under guarantees that are issued in the normal course of business and with respect to litigation and claims that arise from time to time. The amounts are not material and in the opinion of management, any liability which may arise from such contingencies would not have a material adverse effect on the consolidated financial statements of the company.

Certain comparative figures have been reclassified to conform with the current year's presentation.

Generally accepted accounting principles requires that, where practicable, estimates be made with respect to the fair value of both on and off balance sheet financial instruments. The carried value of the financial assets of the company does not differ materially from the fair value.

The financial liabilities of the corporation are comprised of corporate obligations and mortgages related to specific properties. Of these liabilities, 41% or $1.6 billion have been put in place within three months of the balance sheet date and as a result the fair value as at December 31, 1996 does not differ materially from market value; 34% or $1.4 billion have interest rates which are floating rate and therefore the carried value does not differ from market value; and the balance of 24% or $1.0 billion are fixed rate facilities whose carried value, given current market comparatives, does not differ materially from market value.

Corporate Governance

Brookfield encourages sound corporate governance practices, designed to promote the well being and ongoing development of the company, in order to protect and promote the interests of shareholders. Brookfield also believes that sound corporate governance practices will promote and protect the interests of the company's employees and the communities in which the company operates. Corporate governance relates to the activities of the board of directors who are elected by and are accountable to the shareholders, and takes into account the role of management, who are appointed by the board of directors and who are charged with the ongoing management of the affairs of the company.

This portion of the annual report has been approved by the Governance Committee of the board of directors, and has been prepared in response to The Toronto Stock Exchange Guidelines for Approved Corporate Governance (the "TSE Guidelines").

Board of Directors

Mandate of the Board

Brookfield's board of directors supervises the management of the company's business and affairs, both directly and through committees. In doing so, the board acts at all times with a view to the best interests of the company. In fulfilling its mandate, the board, among other matters, is responsible for:

- reviewing the company's overall business strategies and its annual business plan;
- reviewing all major strategic initiatives to ensure that the company's proposed actions accord with shareholder objectives;
- appointing senior management and reviewing succession planning;
- assessing management's performance against business plans previously approved by the directors and against industry standards;
- reviewing and approving the reports issued to shareholders, including annual and interim financial statements, as well as materials prepared for shareholder meetings;
- ensuring the effective operation of the board of directors; and
- safeguarding shareholders' equity interests through the optimum utilization of the company's capital resources, which includes setting an appropriate dividend policy.

The board of directors meets at least once in each quarter, with additional meetings held when appropriate. The board of directors met eight times in 1996. There were four regular meetings, one special meeting for reviewing the company's strategic business plan and three additional meetings to consider and approve specific items of business. Four regular meetings are scheduled for 1997. Two special meetings have occurred in January 1997. Meeting frequency and agendas may change from time to time depending on opportunities or risks faced by the company.

Well informed directors are essential for the effective performance of a board. Directors have the opportunity to meet with senior management and to participate in work sessions to obtain further insight into the operations of the company. Individual directors are free to consult with members of senior management whenever they so require, and to engage outside advisors where appropriate.

Composition of the Board and Representatives of Shareholders' Interests

The board of directors is comprised of individuals nominated by its major shareholder, independent directors and directors drawn from senior management. This combination leads to a healthy exchange in board deliberations resulting in objective, well-balanced and informed discussion and decision making.

The board of directors of Brookfield consists of nine directors. The board of directors includes four directors who are independent of the major shareholder, three directors who have interest in or are related to the major shareholder and two directors who are members of senior management. The company considers this to be an appropriate size and composition given the diversity of the company's operations and the need for a variety of experience and backgrounds to ensure an effective and efficient board.

Approximately 68% of Brookfield's outstanding common shares are held by The Edper Group Limited. Brookfield believes that the involvement of a major shareholder is compatible with ensuring that senior management is accountable to all the shareholders as owners, in that the major shareholder, having a significant investment in the company, can play an important role on behalf of all shareholders in setting the terms of the business plan and assessing management's performance on an ongoing basis.

Brookfield considers that seven of its nine directors, comprising a majority of the board, are unrelated directors within the meaning of TSE Guidelines: that is, free from any interest, business or other relationships (other than interests and relationships arising from shareholdings), which could, or could be reasonably perceived to, materially interfere with a director's ability to act in the best interests of the company and all its shareholders. In making this distinction, the circumstances of each director have been examined in relation to a number of factors, including whether or not they are members of management of the company or an officer of an affiliate.

The company considers that four of the unrelated directors are also independent directors who are free from any interests in or relationships with its major shareholder within the meaning of the TSE Guidelines. The membership on the board of these directors more than fairly represents the investment in the company by minority shareholders.

Committees of the Board

Brookfield believes that the board committees assist in the effective functioning of a company's board of directors and that the appropriate composition of board committees should enable the views of unrelated and independent directors to be effectively expressed.

The board of directors of Brookfield has three committees: the Audit Committee, the Human Resources Committee and the Governance Committee. Special committees may be formed from time to time as required to review particular matters or transactions. While the board of directors retains overall responsibility for corporate governance matters, the Human Resources and Governance Committees have specific responsibilities for certain aspects of corporate governance as described below.

The following is a brief description of the mandate of each committee, its composition and the meetings held during the past year.

Audit Committee

The Audit Committee is comprised of three directors, the majority of whom are independent and unrelated directors: Messrs. Sam Pollock (Chairman), Allan Olson and Robert Harding. The Audit Committee is responsible for monitoring the company's systems and procedures for financial reporting and internal control procedures, reviewing certain public disclosure documents and monitoring the performance of the company's external auditors. The committee is also responsible for reviewing the company's annual financial statements and management's financial analysis and review of operations prior to their approval by the full board of directors. The Audit Committee met twice in 1996, including meeting with the company's external auditors independent of management.

Human Resources Committee

The Human Resources Committee is comprised of three directors, who are all unrelated directors: Messrs. Jack Cockwell (Chairman), Robert Harding and Sam Pollock. The committee is responsible for reviewing and reporting to the board on human resource planning, including succession planning and proposed senior management appointments; the levels and form of executive compensation in general; and the specific compensation of senior executives. The committee also reviews the performance of senior management against written objectives, and reports to the board. The Human Resources Committee met twice in 1996.

Governance Committee

The Governance Committee is comprised of three directors who are all unrelated and independent: Messrs. Sam Pollock (Chairman), John McCaig and Allan Olson. It is the responsibility of the Governance Committee, in consultation with the Chairman, to periodically assess the size and composition of the board and its committees, to review the effectiveness of the board's operations and its relations with management, and to review and recommend directors' compensation. The Governance Committee met once in 1996.

Management

Management's Role

The primary responsibility of management is to safeguard the company's assets and to create wealth for shareholders. When performance is found to be inadequate, the directors have the responsibility to bring about appropriate change.

Brookfield's business and financial principles are designed to encourage autonomy and effective decision making on the part of management, while ensuring scrutiny by the company's shareholders through its board of directors and its Human Resources Committee. Brookfield believes the best managers promote shareholders' interests and value the financial and other support which shareholders and directors can offer.

Management's Relationship to the Board

Senior management of the company reports to and is accountable to the board of directors. Mr. Gordon E. Arnell, Chairman and Chief Executive Officer and J. Bruce Flatt, President and Chief Operating Officer are members of the board of directors. At its meetings, the board regularly engages in a private session with the company's Chairman and President without other members of senior management present. The board is also free to meet independently of any members of management on any matter.

Management Accountability

Business plans are developed to ensure the compatibility of shareholder, board and management views on the company's strategic direction, performance targets and utilization of shareholders' equity. A special meeting of Brookfield's board is held each year to review the strategic initiatives and the business plan submitted by senior management. The board's approval of the annual business plan then provides a mandate for senior management to conduct the affairs of the company knowing it has the necessary board support. Material deviations from the plan are reported to and considered by the board.

Board Information

Information provided by management to directors is critical to their effectiveness. In addition to the reports presented to the board at its regular and special meetings, the board is also kept informed on a timely basis by management of corporate developments and key decisions taken by management in pursuing the company's business plan. New directors are provided with comprehensive information about the company and its operations. The directors periodically assess the quality, completeness and timeliness of information provided by management to the board.

Management Rewards

Brookfield's compensation plans are based on maintaining a direct link between management rewards and the wealth created for shareholders so that a portion of senior executives' rewards are through share ownership. During 1996 and early 1997, seven executives received allocations of share purchase options to augment their compensation. The option plan may be expanded to other executives in 1997. Brookfield is also committed to maintaining periodic reviews of its compensation practices to ensure that management is fairly rewarded over time based on performance.

Investor Communications

Shareholders should be kept informed of the company's ongoing affairs. Accordingly, the company publishes reports to shareholders on a quarterly basis, including a comprehensive annual report. These reports, together with shareholder meeting materials and certain other statutory filings, are reviewed and approved by the board of directors.

In addition to annual shareholders' meetings, where management meet with shareholders and are available to respond to questions, Brookfield maintains an investor relations function to ensure shareholders' inquiries are dealt with in an appropriate manner.

Brookfield management are in contact with the investment community and meet regularly with investment analysts and advisors to ensure that accurate and appropriate information is available for investors. Brookfield also endeavours to ensure that the media are kept informed of developments as they occur, and have the opportunity to meet and discuss these developments with the senior management of the company.

Directors and Officers

Directors

Gordon E. Arnell
Calgary, Alberta
Chairman and Chief Executive Officer
Brookfield Properties Corporation

Jean A. Beliveau, O.C.
Montreal, Quebec
President
Jean Beliveau Inc.

Ian G. Cockwell*
Oakville, Ontario
President
Westcliff Management Services Ltd.

L. Ross Cullingworth*
Willowdale, Ontario
Chairman
Brookfield Homes Ltd.

Senator J. Trevor Eyton, O.C.
Caledon, Ontario
Chairman
Brascan Limited

Robert A. Ferchat*
Mississauga, Ontario
Chairman and Chief Executive Officer
BCE Mobile Communications Inc.

J. Bruce Flatt
Toronto, Ontario
President and Chief Operating Officer
Brookfield Properties Corporation

Robert J. Harding
Toronto, Ontario
President and Chief Executive Officer
The Edper Group Limited

David A. Lewis*
Toronto, Ontario
Corporate Director

John R. McCaig
Calgary, Alberta
Chairman
Trimac Corporation

Allan S. Olson
Edmonton, Alberta
President
Olson Management Ltd.

Sam Pollock, O.C.
Toronto, Ontario
Vice Chairman
Brookfield Properties Corporation

**Director elect*

Corporate and Operating Executives

Gordon E. Arnell
Chairman and Chief Executive Officer

J. Bruce Flatt
President and Chief Operating Officer

Brookfield Commercial Properties Ltd.
Brookfield Management Services Ltd.

David D. Arthur
President and Chief Executive Officer
Brookfield Commercial Properties Ltd.

Stephen W. Laver
President and Chief Operating Officer
Brookfield Management Services Ltd.

John M. Aoun
Senior Vice President, Finance

John M. Sullivan
Senior Vice President, Asset Management

John W. Campbell
President, Eastern Canada

Michael J. Golightly
President, Western Canada

Julian Davis
President, Pacific Canada

Tracy W. Wilkes
President, Mountain U.S.

Harold R. Brandt
President, Midwest U.S.

H. Gordon McKenzie
President, Pacific U.S.

Ron A. Rimer
Senior Vice President and Controller
Brookfield Management Services Ltd.

John D. Kennedy
Vice President and Controller
Brookfield Commercial Properties Ltd.

World Financial Properties L.P.

John E. Zuccotti
President and Chief Executive Officer

John A. Moore
Executive Vice President, Finance

Richard B. Clark
Executive Vice President, Leasing

Lawrence F. Graham
Senior Vice President, Operations

Edward F. Beisner
Senior Vice President and Controller

Brookfield Homes Ltd.

L. Ross Cullingworth
Chairman

William J. Pringle
President and Chief Executive Officer

John DeGroot
President, Ontario

G.M. (Jerry) Armstrong
President, Virginia/Maryland

Richard Lamondin
President, Florida

Stephen P. Doyle
President, San Diego

Jeffrey J. Prostor
President, Orange County

John J. Ryan
President, San Francisco

Paul G. Kerrigan
Vice President and Controller

Carma Corporation

Alan Norris
President and Chief Executive Officer

R. Brian Hodgson
Executive Vice President and Chief Operating Officer

David C. Harvie
Vice President, Corporate Development

Herbert E. Groenenboom
Vice President, Finance

Peter E. Nesbitt
Vice President, Calgary

Douglas W. Kelly
Vice President, Edmonton

Thomas A. Sheppard
Senior Vice President, Saskatchewan

Corporate

Steven J. Douglas
Vice President, Finance

P. Keith Hyde
Vice President, Taxation

Michael Zessner
Senior Vice President and General Counsel

Anne Arone
Corporate Secretary

Other Corporate Information

Corporate Information

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Auditors

Deloitte & Touche
Suite 1400, BCE Place
181 Bay Street
Toronto, Ontario
M5J 2V1

Stock Exchange

Toronto

Ticker Symbols

BPC, BPC.IR, BPC.IRA

Operating Groups

Commercial properties
Brookfield Commercial Properties Ltd.
World Financial Properties L.P.

Real estate management services
Brookfield Management Services Ltd.

Home building and land development
Brookfield Homes Ltd.
Carma Corporation

Shareholder Information

Shareholders with questions relating to dividends, address changes and share certificates should contact The R-M Trust Company.

Shareholders' questions relating to the operations of the company should be directed to management of the company at its corporate office.

Notice of Annual Meeting

The Annual Meeting of Shareholders will be held at the Hockey Hall of Fame, BCE Place, 30 Yonge Street, Toronto, Ontario, at 10:30 a.m. on May 8, 1997.

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